REPORT OF
THE AUTOPAC REVIEW COMMISSION

VOLUME I: SUMMARY OF MAIN CONCLUSIONS AND RECOMMENDATIONS

His Honour Judge Robert L. Kopstein
Provincial Court of Manitoba
Commissioner

Submitted to The Honourable Glen Cummings
Minister responsible for
The Manitoba Public Insurance Corporation

Winnipeg, Manitoba
1988

ERRATA

Vol. I Summary		
Bibliography	Page 11	#159 should read "Mr. Justice Coulter A. Osborne, Commissioner" and also be listed under his name.
Vol. II Position Paper No. 2		
Bodily Injury	Page 8	2nd paragraph, 2nd line, should read Professor "Philip" Osborne, as well as footnote.
Bodily Injury	Page 86	Under Present, should read "Waiting period: 1 week"
Vol. II Position Paper No. 3		
Ratemaking and Coverage	Page 106	Page incomplete. Replacement included.
Vol. II Position Paper No. 5		
Repairs	Page 13	2nd line, delete $1.
Repairs	Page 14	3rd paragraph, 3rd line, should read "still seems to be an issue".
Repairs	Page 25	3rd paragraph, 4th line, should read "is acting unfairly".
Vol. II Position Paper No. 6		
Claims	Page 4	Table 6.01, case #6, "less salvage" refers only to $2800.
Vol. II Position Paper No. 7		
Financial Management	Page 48	Table 7.2 omitted. Replacement included.
Vol. II Position Paper No. 8		
Human Resources	Page 21	9th line, should read "Position Paper No. 3".

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AUTOPAC REVIEW COMMISSION

JUDGE ROBERT L. KOPSTEIN
COMMISSIONER

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WINNIPEG, MANITOBA R3C OC
(204) 945-5731

September 21, 1988

Honourable Glen Cummings
Minister responsible for
The Manitoba Public Insurance Corporation
330 Legislative Building
WINNIPEG, Manitoba
R3C OC4

Dear Mr. Minister:

Pursuant to terms of reference attached to a letter addressed to me from the former minister responsible for The Manitoba Public Insurance Corporation, dated February 22, 1988, I now transmit my report of the work of the Autopac Review Commission.

Yours respectfully,

Robert Kopstein
Commissioner

Attachment

Manitoba

Minister Responsible for
The Manitoba Public
Insurance Corporation

February 22, 1988.

His Honour Judge Robert Kopstien,
Provincial Court (Criminal Division),
373 Broadway Avenue,
WINNIPEG, Manitoba.

Dear Judge Kopstien:

This letter serves as official notification of both our offer and your acceptance to act as a one man commission, which is designed to solicit the views of Manitobans and carry out research on the most appropriate ways to ensure that the automobile insurance division and Manitoba Public Insurance Corporation continues to provide low cost, high quality automobile insurance to Manitoba Drivers on an self-sustaining basis.

As agreed the commission will hold informal public meetings throughout Manitoba to review the program with Manitobans and to receive their views as to how Autopac can be improved. The commission will report by June, 1988 in order to ensure that its recommendations can be fully reflected in the development of the M.P.I.C. program for 1989. Appended to this letter please find the terms of reference for the Autopac review commission.

At this time I would like to, on behalf of the people of Manitoba offer, you my thanks for your acceptance of this position. I have no doubt that you will undertake this venture with the same enthusiasm and dedication of purpose that has been the hallmark of your period on the bench. I am also quite certain that the results of your commission will be of benefit to the people of Manitoba and more specifically the driving public of Manitoba.

Yours truly,

Bill Uruski

Bill Uruski,
Minister.

AUTOPAC REVIEW COMMISSION

Terms of Reference

The Autopac Review Commission is to solicit the views of Manitobans and carry out research on the most appropriate ways to ensure that the Automobile Insurance Division of the Manitoba Public Insurance Corporation continues to provide low cost, high quality automobile insurance to Manitoba drivers on a self-sustaining basis. More specifically, the Commission is to consider:

1. Ways to reduce Autopac costs, including
   (a) auto body repair costs;
   (b) adjusting practice for repairs and write-offs;
   (c) legal and liability award costs;
   (d) policy servicing costs;
   (e) the appropriate level of deductible for basic coverage;
   (f) limits on mandatory collision coverage;
   (g) the level of no-fault bodily injury benefits;
   (h) anniversary renewals;
   (i) return on portfolio investment.

2. Ways to ensure that Autopac rates are fair and equitable including:
   (a) recognition of good drivers;
   (b) penalties for poor drivers;
   (c) experience rating by vehicle type, age, and territory;
   (d) use of drivers licence fees and/or gasoline taxes to finance automobile insurance costs;
   (e) alternative time payment plans; and
   (f) replenishing reserves to required levels.

The Commission will hold informal public meetings throughout Manitoba to review the Autopac program with Manitobans and to receive their views on how Autopac can be improved. As well the Commission will carry out a related research program so that it can recommend specific actions that should be undertaken to improve Autopac.

The Commission will report by June, 1988 in order that its recommendations can be fully reflected in the development of the program for 1989.

ACKNOWLEDGEMENTS

In submitting this report, I wish to acknowledge the immense help that I have received from the staff of the commission. I could hardly have commenced the task of an Autopac review, much less completed it, without the massive and untiring support of Julian Isitt, the commission's secretary and chief coordinating officer; Alfred Black, research director; Sid Rogers, research associate and Joe Cottreau, public affairs director. Their efforts have been, truly, far beyond the call of duty.

I wish, also, to recognize the dedicated assistance and support of office management and secretarial staff members Beverly Campbell, Patsy Domanski, Valerie Webster, Karen Heppner and Christina Cornell whose intelligent efforts played a major role in the production of this report. Debbie Burgess, Gloria Huckles, Dawn Shinkarik, and Margaret Kong Ching who assisted with secretarial work for shorter periods were helpful as well. I appreciate the important assistance they provided.

Wayne Buck, comptroller of the Public Investments Corporation of Manitoba, provided valued support of the commission's financial administration and office accommodation needs. I also thank officials of many government departments for their cooperation in arranging staff secondments and the help they provided the commission in assessing many questions. I must also acknowledge my colleagues on the bench for their forebearance in sharing my judicial duties during my absence.

For their willingness to speak to me, and their candor, I thank former chairpersons, board members and executives of The Manitoba Public Insurance Corporation. I appreciate also, the assistance of those individual employees who extended their support to the commission. Officials of other public insurance companies in Canada, in particular the Regie de l'assurance automobile du Quebec and the Insurance Corporation of British Columbia, were most cooperative and helpful.

I wish to express my thanks also to Mr. Bill Uruski, the minister formerly responsible for Autopac, for providing me the opportunity to conduct the important work of an Autopac review. As well, I wish to thank the Honourable Glen Cummings, the minister now responsible for Autopac, for his courtesy to me personally, and for his patience and understanding in awaiting the production of this report past two dates originally scheduled for its completion.

AUTOPAC REVIEW COMMISSION

VOLUME I: SUMMARY OF MAIN CONCLUSIONS AND RECOMMENDATIONS

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I. OVERVIEW

The Autopac Review Commission was appointed to solicit the views of Manitobans and to carry out research on the most appropriate ways for The Manitoba Public Insurance Corporation (MPIC) to provide low cost, high quality, vehicle insurance on a self-sustaining basis. In conducting the review, I sought to assess the corporation both as Manitobans see it and as it actually operates. I discovered that many of the problems perceived by the public did, in fact, reflect weaknesses within the corporation.

Inevitably, a review of Autopac such as I have undertaken must focus upon those aspects of the plan which are uneconomical, inequitable or for some other reason, deficient. I wish to emphasize at the outset, however, that for the most part the commission encountered a committed staff who are anxious to serve and to do their jobs well. The present plan, though inadequate in some important respects, has nonetheless served Manitobans quite well.

In conducting the review, I proceeded

- To inform myself on all aspects of Autopac.
- To identify the source or sources of weakness in the Autopac system.
- To assess alternatives for strengthening the system where weakness was discovered.
- To propose recommendations for the improvement of Autopac.

Beyond the internal operations of MPIC itself, I considered it appropriate to examine and to evaluate the experience of other automobile insurance systems in Canada and abroad to determine whether those systems, or any aspects of them, could be usefully considered for application in Manitoba.

At the risk of over-simplification of sometimes complex issues the following is an overview of the most important disclosures concerning Autopac and the most important challenges it faces in the immediate future.

A. NO-FAULT ACCIDENT BENEFITS

My examination of insurance systems outside Manitoba has revealed that there is a major opportunity to reduce costs and improve benefits, both quite substantially. That opportunity lies in the adoption of pure no-fault accident benefits in place of the current partial no-fault system which is usually described as add-on no-fault.

Currently, Autopac provides no-fault accident benefits such as lump sum death benefits, impairment allowances for lost limbs etc. and weekly indemnities. That part of the system in Manitoba which pays those benefits, regardless of negligence, is called add-on no-fault. The ability to obtain adequate compensation for serious injuries due to a motor vehicle accident depends, in large degree, upon the injured party's ability to establish that another person caused his or her injuries by negligent driving. The law of negligence is a part of a larger body of law known as tort. That part of the present system which requires the establishment of negligence as a prerequisite to entitlement to compensation is known as the tort system.

On reviewing the literature and considering the manner in which the tort system operates to compensate some victims of motor vehicle accidents, I am persuaded that the tort system is inadequate and inequitable because

- It can fail to compensate the innocent or it can fail to compensate the innocent to an acceptable level.
- It will fail to compensate the normally careful driver who makes a mistake.

Together with the deficiencies of the tort system, the present no- fault benefits are inadequate, particularly for those who are seriously injured and permanently disabled.

On the advice of a reputable actuarial firm, I believe that increased benefits, including substantial benefits for non-economic losses such as compensation for pain and suffering, could be offered at lower cost if the tort system were to be eliminated and a pure no-fault system implemented. In my opinion the implementation of a pure no-fault automobile insurance system is the issue which requires most urgent consideration by the government of the province of Manitoba, because that system offers the greatest opportunity to reduce costs and increase benefits.

B. RATEMAKING

For most of its 17 years, MPIC has kept a reasonable balance between its revenues and costs. Most motorists in Manitoba pay premiums that can be compared favourably to the rates offered by other insurers elsewhere in Canada. MPIC's rating system for judging risks and for fixing premium prices has since its inception strived for simplicity. It incorporates three primary factors:

- Vehicle use, of which there are nearly 100 categories (e.g. all purpose use for passenger cars),
- Territory, (Manitoba is divided into four rating territories).
- Vehicle rating group (which, in the case of passenger cars, is related broadly to the original factory price).

From Autopac's inception the rating system was, by design, more level than is common practice among private insurers. It does not discriminate as much as they do between higher risks and lower risks.

This rating system was seen initially as a benefit in the sense that it makes insurance affordable to those who are in the high risk classes without penalizing too severely those who are in the low risk classes. That benefit, with some modification, has remained constant over the course of the corporation's history.

During the public meetings which I convened in May of this year, some people pointed out apparently inequitable and irrational rate differences. When the corporation later provided the commission with details of its losses, it became evident that there was little demonstrable relationship between the losses occasioned by particular groups and the premiums charged to those groups. The commission found that, during the past three years, the corporation had proposed rate increases that were not justified given the corporation's loss experience.

Quite apart from ratemaking itself, the process by which the corporation sets rates requires attention. There is no senior manager assigned, full-time, to this important function. It appears that there is little organizational commitment, on an ongoing basis, to the development of ratemaking. The corporation has sought across-the-board increases to generate such additional income as its global loss projections required. The ratemaking system employed by the corporation is deficient. The corporation should, in order to set rates that reflect the loss experience of individual groups, develop a new ratemaking system.

Despite limitations in the corporation's current calculations of premium reductions and surcharges, the initiatives taken in the 1988 year are probably the most useful steps taken by the corporation to improve the fairness of rates. The inadequacies, however, relating to the manner in which the driver's record is currently reflected in rate adjustments cannot be overcome unless:

- the existing merit/demerit system is overhauled so that it becomes a more useful indicator of insurance experience, and so that it applies fairly, or
- the merit/demerit system is replaced by a system developed to measure risk solely on the basis of the corporation's loss experience.

There is a demand by many for a system which provides significant premium discounts to those who do not add to the corporation's costs. The demand is justified in my opinion. If such discounts are to be accorded, however, they must be funded broadly by those who do from time to time contribute to the corporation's losses. There is no other source. Providing significant discounts for long-time, accident-free motorists means surcharging on a broader base than is now done.

In my opinion, steps to improve its ratemaking ability should be the corporation's first priority. There is little point in a corporate attempt to make detailed improvements in its business operations until its ratemaking ability is improved. It is a process, I am informed, which may take the corporation as long as three years to develop. Few major improvements can be expected immediately. Nevertheless, early remedial action to correct clear inequities, such as the 1988 rate increase on motorhomes and the ineligibility of motorcycle owners and other owners to merit reductions, should not be delayed.

C. ACCOUNTABILITY AND CORPORATE IDENTITY

As a provincial government monopoly, the role and function of MPIC is prescribed by legislation and by regulations. While not expressed in the act or in the regulations, MPIC is a public trust. The responsibility for MPIC rests, ultimately, with the government. In my opinion, however, a government which involves itself intimately with the day to day business of the corporation does a disservice to itself, to the corporation and to motorists.

MPIC requires a sense of corporate identity, one that will permit it to take greater responsibility for its actions. Intimate government involvement is likely to undermine the responsibility of corporate officials themselves. Where, however, government perceives the need to intervene in the broader public interest, it should do so by a direction which is formal, explicit and public. Subject to government directives, the corporation should be governed by its board of directors. The function of the chairperson and the minister should be separate.

The Public Utilities Board can provide a useful role by monitoring the corporation's progress in developing improved ratemaking skills over the next few years, by periodic reviews thereafter and by providing a forum for the consideration of people's claims of inequitable rating.

D. CUSTOMER AND PUBLIC RELATIONS

In my opinion, a government-held monopoly must demonstrate that the price paid by a consumer is commensurate with the benefits he or she may expect to receive. If MPIC fails to do that, the public attitude is bound to be cynical concerning the value of the benefits which it does receive. A concentrated effort is needed to enhance access to information about Autopac. In this process, MPIC must take greater initiative in providing information to Manitobans both about its plans and its challenges, as well as about its failures and accomplishments. Public support during periods of difficulty cannot be expected unless the corporation is forthright concerning them.

The corporation does not appear to have recognized the importance of sensitivity to consumer concerns and marketing. It has not responded to market demands which often appear to be reasonable. Nor has it made an effort to explain its failure or inability to do so.

MPIC's network of insurance agents is probably the single most effective marketing link that the corporation has with the public. Listening to agents concerning changes and improvements in Autopac products, and responding, where possible, by introducing new products, would be a most productive process. Given the opportunity of effective input concerning the quality of products marketed by MPIC, agents could become of greater service to the corporation as well as to the clients whom they serve.

E. CLAIMS PROCESSING

The corporation is quite efficient in the handling of claims. There is no evidence that its costs in terms of vehicle repairs, or medical treatment on compensation benefits are greater than reasonable. Moreover, MPIC's approach to estimating and adjusting vehicle damage is intended properly, in my opinion, to ensure safe, high quality repairs. The problems concerning claims relate more to resolution of disputes. In that respect, I consider that the role of the provincial ombudsman should be enhanced and promoted as a resource to assist in the resolution of disputes. Also, the appeal process from the ruling of an adjuster, including the requirement of MPIC to provide counsel for defendants and MPIC's practices and communications concerning such appeals, should be reviewed.

F. OPERATIONS OF MPIC

MPIC's operating costs have not been excessive. Ironically, this positive observation may be the source of at least some of the corporation's problems. Indeed the commission found that MPIC's spending was inadequate in some important activities. One of those relates to its computer systems which, for the needs they are intended to serve, are obsolete. They lack important features which, I am advised, are now considered essential by privately owned businesses. The corporation should realistically assess the alternatives and develop appropriate business systems upon which to base equitable ratemaking and improve other services.

The evidence presented to the commission reveals that MPIC has a good training program for its adjusters and that, generally, adjusters know their business. The adjusting staff, however, need special training in how to estimate and adjust repairs for motorcycles and large trucks. The ability to estimate and adjust in the cases of those vehicles requires improvement.

As well, the corporation must enhance staff skills in ratemaking, in the planning and development of information systems, in automobile insurance underwriting and in executive management.

G. MAIN CONCLUSIONS AND RECOMMENDATIONS

The detailed conclusions and recommendations, for which this Overview sets the stage, are found in the balance of this volume. They are extracted from the position papers prepared by the commission, which are assembled in Volume II of my report. The recommendation numbers and page numbers refer to the position papers.

II. THE PUBLIC CONCERN

The commission regarded "the public" as all those persons, groups and organizations who have a stake in Autopac.

The commission convened public meetings in Brandon, Dauphin, Gimli, Lac du Bonnet, Morden, Portage la Prairie, Russell, The Pas, Thompson and Winnipeg. The meeting in Lac du Bonnet attracted only one person. The meetings at all other locations were attended by groups relative to the populations of the communities ranging from approximately ten to 60 persons. For the commission, the public meetings were productive and useful. Every person who indicated a wish to speak was accorded that opportunity. I questioned many in order to obtain more details of their complaints or concerns, or to explore, more fully, their ideas and suggestions.

I personally responded to the content of many letters received by the commission. One letter which I received near the beginning of the review, told me, bluntly, that the commission would accomplish nothing and was a waste of money. All the other letters and verbal presentations were useful in helping me to identify the problems and to focus upon the development of recommendations concerning them. Both before and during the course of the review I was assisted, as well, by the unsolicited but welcome advice of editorial writers in the various newspapers. Without the meetings and the letters, it would have been impossible to know or to anticipate the multitude of concerns.

Some of the suggestions I received related to concerns which were outside the scope of my mandate, such as the use of front licence plates and matters which pertain to law enforcement.
The following is a description of the various concerns voiced by members of the public. Many of the concerns are dealt with at greater length in the commission's various position papers which follow. For those topics reviewed by position papers, the following description contains references to the position papers in which they are reviewed. Some specific concerns are not examined in any of the position papers. Those will be addressed, as far as is possible, in this description of the public concern.

A. MAIN CONCLUSIONS

- There is at present no independent public resource through which a claimant for no-fault accident benefits may seek quick resolution of disputes.

- That time limits for the filing of claims for no-fault accident benefits should be subject to independent review in cases where the failure to meet a time limit did not arise out of neglect.

- That the corporation's requirement that glass installers use an adhesive, which is not the adhesive recommended by the manufacturer, gives rise to concern about the safety of doing so, and about the liability of a glass installer in using other than recommended adhesives.

- There is no evidence of an MPIC policy requiring adjusters to apportion liability equally between the parties to an accident, nor that it is a frequent practice for MPIC to do so. The evidence is to the contrary.

- That a newspaper article which reported that Autopac throws away premium dollars with carefree abandon was incomplete and misleading. The unfavourable publicity, however, may not have been entirely undeserved.

- The inability to challenge an adjuster's assessment of responsibility when no claim is involved and the naive failure to do so because no surcharge is assessable can have unfair consequences.

- That MPIC is bound by its regulations to defend an insured who is sued in the small claims court for a deductible.

- That the return to the road of written-off vehicles without adequate repairs would in some cases pose a threat to safety.

- That there is need at some locations in the province for a recycling facility.

B. RECOMMENDATIONS

Recommendation A.01: That the corporation establish, within its territory rating categories, a classification which allows the owner of a vehicle to register it in the territory of its principal use rather than in the territory of the owner's principal residence. (page 7)

Recommendation A.02: That through special risk extension department -- and jointly where necessary with the division of driver and vehicle licensing -- the corporation develop a greater flexibility to design insurance products or features for special cases. (page 11)

Recommendation A.03: That MPIC obtain an independent assessment of safety risks which may attach to the use of a glass adhesive other than that recommended by glass manufacturers and publicly report the results. (page 29)

Recommendation A.04: That as adjusters' assessments of responsibility for accidents may affect the assessment of MPIC surcharges at any time, legislation should be enacted authorizing an appeal to the small claims court, for a declaratory judgement as to the apportionment of fault for a motor vehicle accident. (Page 34).

Recommendation A.05: That if MPIC, in any case, appeals the ruling of the small claims court, it be responsible to pay such reasonable costs as may be incurred by the respondent for the services of a lawyer. (Page 37)

Recommendation A.06: That The Manitoba Public Insurance Corporation Act be amended to relieve the corporation of the responsibility to defend an insured who is sued in the small claims court for the recovery of a deductible on a vehicle repair claim. (Page 37)

Recommendation A.07: That the provincial ombudsman be promoted as a resource for information to people who feel aggrieved by the decisions or directions of an adjuster for bodily injury claims concerning the no fault benefits. (Page 40)

Recommendation A.08: That the provincial ombudsman be empowered specifically to recommend to MPIC the extension of the 20 day limit and 90 day limit, respectively, within which disability benefits and impairment may be claimed, and that The MPIC Act be amended to enable the corporation to comply with recommendations of the ombudsman. (Page 41)

Recommendation A.09: That the provincial ombudsman be specifically empowered to receive complaints, to investigate and to make recommendations to MPIC concerning entitlement to or the payment of no fault benefits under part II of the corporation's regulations. (Page 41)

Recommendation A.10: That MPIC and the division of driver and vehicle licensing take such measures as are possible to ensure that the registration of written-off vehicles, the use of which could be hazardous, be prohibited except upon the production of a safety inspection certificate approved by the registrar of motor vehicles. (Page 43)

Recommendation A.11: That MPIC and the division of driver and vehicle licensing jointly direct a feasibility study of methods to control the use of high performance motorcycles by inexperienced drivers, and publicly report the results. (Page 45)

Recommendation A.12: That MPIC and the division of driver and vehicle licensing jointly direct a study to determine the need for an inspection procedure for the assembly of new motorcycles, take such steps as may be necessary if a need is identified and publicly report the results. (Page 45)

Recommendation A.13: That MPIC investigate the feasibility of establishing regionally-located salvage-recycling operations where it may be economically sound to do so and where no privately owned salvage facility exists. (Page 46)

III. POSITION PAPER No. 1: TOWARDS GREATER ACCOUNTABILITY FOR AUTOPAC

The Manitoba Public Insurance Corporation operates independently of the controls by which government departments are regulated. The basis upon which and the mechanism through which it should be accountable are the subjects of this position paper.

The accountability requirements of a Crown corporation such as The Manitoba Public Insurance Corporation are much more extensive than those which apply, normally, to the accountability of private corporations. MPIC is accountable to its sole shareholder, the province of Manitoba through the government. It is accountable to the legislature, through the legislative process. It is accountable to the motorists of Manitoba, not only for the payment of claims, but, as well, for the policies under which it conducts itself and for the efficiency with which it operates. The public is entitled to be informed of the benefits and costs of initiatives inspired through government policy considerations as opposed to business considerations.

For MPIC there are five distinct levels of accountability which should be addressed.

- First, policy initiatives, social or otherwise, directed by government through legislation, regulation or other means, are the responsibility of the government. Accountability for those directives should be borne by the government through the legislative process.

- Second, the corporation, operating as a separate business entity, is responsible to account to the government in a manner similar to that in which a corporation in the private sector must account to its shareholders.

- Third, the government of the day being ultimately responsible for MPIC must be prepared to lay before the legislature and its appropriate committees an accurate and full accounting of the affairs of the corporation.

- Fourth, unlike corporations in the private sector, MPIC, because it is a public trust, should have a public reporting mechanism in the nature of a pro-active information service through which the public generally may be informed. Because virtually everyone in Manitoba may be affected by MPIC, it is not necessary to distinguish between its policyholders and the public in general.

- Finally, because of the corporation's monopoly position in the field of automobile insurance in Manitoba, there are segments of the public which depend almost exclusively upon the corporation for their livelihoods. Being a monopoly, the corporation's negotiating position in dealing with those segments of the public is disproportionately strong. Given that strength, the corporation should be accountable in terms of the fairness of its dealings with those segments of the public.

While it has been suggested that the government should intervene in the business affairs of a Crown corporation such as MPIC only within the framework of established policy guidelines, the demarcation line between a policy decision and a decision relating directly to the management of the corporation cannot easily be drawn. The attempt to restrict government participation through the enunciation of broad policy guidelines is unproductive. It must be recognized that government has the right to direct the affairs of the corporation.

The exercise of the right to direct the affairs of the corporation is a contentious issue when its authority to do so is not clear and when there is public confusion as to whether a decision is that of the corporation or the government. The confusion has given rise to questions of credibility, to strained relationships between the government and the corporation and to an undermining of responsibility among corporate officials and staff.

A. MAIN CONCLUSIONS

- The power of The Public Investments Corporation of Manitoba which was incorporated in 1987 under the provisions of The Accountability of the Crown Corporations Act seriously undermines the power and authority of the MPIC board of directors and confuses both responsibility for the affairs of MPIC and accountability concerning its operations.

- It is appropriate that the government be empowered, as it presently is, to appoint an MLA to the MPIC board of directors. The practice of appointing the Minister responsible for MPIC as chairperson of its board of directors is inappropriate. Currently there are insufficient legislative guidelines for division of responsibility between the government and the corporation.

- The membership of the board of directors should possess the joint capability to address both the business concerns and the social policy concerns of MPIC.

- The appointments to the board should not necessarily emphasize the diverse social segments of the community in Manitoba, but rather the talents and the expertise required.

- Currently, the terms of office of all members of the board of directors may terminate at one time. In the corporation's own interests and in the interests of those whom it serves, continuity of experience and knowledge relating to the operations of MPIC should not be broken.

- The most important function of the board, as articulated in The MPIC Act, is "to direct the management of the business and affairs of the corporation".

- It is essential that the board, independently of the government, exercise its function. It is equally essential, acknowledging the government's vital interest in the affairs of the corporation and its right to give the board directives, that the minister responsible for MPIC be advised of any important decision made by the board. That advice is necessary to enable him or her to react to any such decision by appropriate formal directive should he or she consider it to be in the public interest to do so.

- The importance of the position of chief executive officer cannot be too highly valued. While the public may resent seemingly extravagant benefit packages made available to senior executives, it must be understood that to manage a corporation the size of MPIC requires more than ordinary experience and expertise and that few people can be expected to meet the qualifications necessary for the position of chief executive officer.

- Presently, The MPIC Act is silent as to whom the chief executive officer is accountable. He or she is appointed by the Lieutenant Governor-in-Council. It is logical to believe, therefore, that his or her source of direction may be the government and not the board of directors. If the board of directors is to exercise the legislative authority to direct the management of the business and affairs of the corporation, it cannot properly be expected to do so unless the chief executive officer is accountable to the board.

- Frequent changes in senior management are disruptive. Recent changes had a negative impact upon morale within the corporation, and rendered uncertain the immediate objectives and goals of the corporation.

- The MPIC Act presently requires the corporation to conduct organizational reviews every five years. The act does not specify whether the organizational reviews should be external or internal. Reviews should be internal, unless a need for diagnostic review by an external consultant is identified by the board in consultation with the chief executive officer, or unless the minister directs an external review.

- Organizational reviews at five year intervals, moreover, will be less productive than an institutionalized, on-going, scheduled process of audit and re-evaluation of each function within the organization in rotation over, perhaps, five year cycles.

- One of the functions of the board should be to direct the corporation to undertake such studies as are necessary.

- To monitor the ratemaking policies and practices of MPIC, review by the public utilities board is appropriate.

- Because of a significant time factor implicit in a public utilities board approval of actual rate increases, the corporation's ability to estimate, accurately, its needs for an ensuing year, could be seriously prejudiced. Prior PUB approval of rate increases is not practical. The Public Utilities Board should, nonetheless, serve the equally important function of reviewing the corporation's ratemaking policies and practices, and report publicly upon those reviews.

- For an initial period of three to five years, the corporation should be required, annually, to submit its ratemaking policies and practices to the scrutiny of the public utilities board.

- The primary role of the public utilities board should be that of an independent and objective critic.

- The estimated cost of public utilities board reviews, while significant, is not unreasonable, considering the benefits to be derived.

- Members of the public should have access to the public utilities board for informal reviews on specific complaints.

- Following the initial period of automatic annual reviews, there should be a mechanism whereby the public utilities board reviews would be triggered automatically upon objective indicators of ratemaking problems within the corporation.

- In the absence of formal reviews otherwise held, the corporation should be required to submit its ratemaking policies and procedures to the scrutiny of the public utilities board at least once every three years.

- The corporation's annual report, while useful, is not sufficiently informative. It should be broadened to provide public information on all aspects of its business operations.

- Present legislation requires senior management of the corporation to hold annual public meetings to explain the objectives of the corporation, to receive suggestions from members of the public regarding the improvement of service, and to receive and investigate complaints. That process would be a time consuming and often unproductive exercise.

- Because MPIC is a monopoly provider of automobile insurance in the province of Manitoba, it is also the sole or major consumer of the materials and services of certain industries in Manitoba, such as the automotive trades industry. Respecting those industries, the corporation may exercise an unfair and excessive influence.

- The 1988 increase in the deductibles applicable to the repair of vehicles, unfairly affected the automotive repair industry.

- The Autopac Guide, published annually, summarizes well the various insurance coverages provided under Autopac. Its circulation to the motoring public, however, is inadequate.

- The public wishes to know, but is unable to obtain accurate information as to what insurance protection the premium attached to the driver's license provides.

- The vehicle registration/insurance certificate does not provide adequate information concerning the allocation of premiums collected. The corporation, presently, is unable to provide such information.

B. RECOMMENDATIONS

Recommendation No. 1.01: That the government be authorized by appropriate legislative enactment, similar in substance to S.99 of The Financial Administration Act (Canada), to give directives to MPIC. (Page 10)

Recommendation No. 1.02: That any directive so given shall be tabled in the legislature on any of the first 15 days on which the legislature is in session after the directive is given. (Page 10)

Recommendation No. 1.03: That the provisions of The Accountability of Crown Corporations Act, which empower The Public Investments Corporation of Manitoba to direct the MPIC board upon matters of policy, be repealed and that the authority to direct the affairs of MPIC be re-vested in the MPIC board. (Page 11)

Recommendation No. 1.04: That The MPIC Act be amended to preclude appointment of the minister responsible for MPIC as chairperson of the board. (Page 13)

Recommendation No. 1.05: That the legislative provisions governing MPIC be altered to confer on the board of MPIC clear authority to direct the operations of MPIC, subject to government directives communicated to the board through a process which clearly identifies responsibility for corporate action. (Page 14)

Recommendation No. 1.06: That The MPIC Act be amended to require that the resumes of persons appointed to the board of MPIC be published and be filed in the office of the Clerk of the Legislative Assembly for public access. (Page 14)

Recommendation No. 1.07: That the present legislation be amended to ensure continuity of experience on the board. (Page 15)

Recommendation No. 1.08: Subject to adoption of recommendations 1.01 and 1.02, that the legislation be amended to provide:

- That the chairperson of the board will forward to the minister or his designate, immediately following each board meeting, a description of the business transacted, together with the supporting material for decisions taken, as recorded by the minutes.
- That no material change or alteration in the substance of insurance products offered, or of the pricing of such products approved at any such meeting, shall be implemented for a period of fifteen working days immediately following the minister's receipt of the minutes in which the decision to make any such change is recorded, except on the written consent of the minister. (Page 17, 18)

Recommendation 1.09: That the board be required by statute to appoint the chief executive officer at a salary and with employment benefits commensurate with experience and ability. (Page 20)

Recommendation 1.10: That the level of benefits which the board is authorized to offer be within the range of benefits provided to chief executive officers within the insurance industry in Canada. (Page 20)

Recommendation 1.11: That a condition of the appointment of the chief executive officer be his or her firm commitment to remain in the post for at least five years, subject to the power of the board to remove for cause. (Page 20)

Recommendation 1.12: That the present legislation requiring organizational reviews every five years be amended to require scheduled institutional audits of each function of the organization of MPIC in rotation over five year cycles. (Page 22)

Recommendation 1.13: That a component of MPIC be established to conduct comprehensive, internal audits of each function within the organization of MPIC. Among the specific functions to be audited are the following:

- Ratemaking and underwriting.
- Claims administration.
- Information systems.
- Financial administration.
- General administration.
- Marketing and product distribution. (Page 22)

Recommendation No. 1.14: That the component performing the audit report its results and its recommendations directly to the chief executive officer and the audit committee of the board of directors. (Page 22)

Recommendation No. 1.15: That on the basis of the report of every such audit, the board of directors, in consultation with the chief executive officer, re-evaluate the function under review and order such changes as may be necessary to improve the quality of that function. (Page 23)

Recommendation No. 1.16: That the MPIC board be required by legislation to consider and appraise strategic initiatives relating to all aspects of the corporate mandate and that the board be empowered to direct such changes and alterations in the quality of automobile insurance coverage and service it considers will better meet the public need. (Page 30)

Recommendation No. 1.17: That legislation be enacted requiring the corporation to submit its ratemaking policies and practices to the public utilities board annually for a period of at least three years commencing in 1989. The public utilities board should be empowered to extend that period to five years. The responsibility of the PUB should be to assess critically the corporation's ratemaking proposals in each year, and to publish a report of its findings. (Page 37)

Recommendation No. 1.18: That following the initial period of three to five years, the PUB be required to conduct a review of the corporation's ratemaking policies if any two-year underwriting ratio, in aggregate for basic Autopac, is less than 90 percent or more than 110 percent. (Page 39)

Recommendation No. 1.19: That following the initial period of three to five years, the PUB be required to conduct a review of the corporation's ratemaking policies and practices if any two-year underwriting ratio, for any class of insurance in basic Autopac, is less than 85 percent or more than 115 percent. (Page 39)

Recommendation No. 1.20: That the corporation's loss reserves be actuarially reviewed each year. (Page 39)

Recommendation No. 1.21: That the PUB be empowered to consider individual grievances submitted to it concerning MPIC rates for basic Autopac. Upon receipt of any such grievance, the PUB should have the discretion to deal with the grievance without formality and to publish its findings, or to call upon MPIC to account publicly, in open forum, concerning the grievance. (Page 39)

Recommendation No. 1.22: That once in every three years, following the period contemplated in recommendation 1.18, the corporation should be required to submit to the scrutiny of the public utilities board its ratemaking policies and practices which have not been the subject of review within the previous three years and the PUB should be required to assess those policies and practices, and to publish a report of its findings. (Page 40)

Recommendation No. 1.23: That the corporation's annual report be broadened beyond its present scope to provide the public with information upon all aspects of its business operations. (Page 44)

Recommendation No. 1.24: That the present requirement for annual public meetings be repealed. (Page 45)

Recommendation No. 1.25: That the corporation solicit advice, suggestions and complaints from members of the public and that a fair and objective summary of them be published annually. (Page 45)

Recommendation No. 1.26: That the public utilities board be empowered to consider and review complaints of unfair treatment by the corporation respecting Manitoba industries which supply services to the corporation or are in a position to do so, and further, that the board be empowered to submit such recommendations for remedial action to the minister responsible, as the board considers just. (Page 48)

Recommendation No. 1.27: That future increases in deductibles be periodically adjusted parallel to significant increases in the rate of inflation. (Page 50)

Recommendation No. 1.28: That the annual Autopac Guide published by the corporation be included with the documents received from MPIC or an agent upon the issue of every vehicle insurance policy. (Page 50)

Recommendation No. 1.29: That information relating to the allocation of the $35 insurance fee attached to drivers licences be added to the annual Autopac Guide. (Page 50)

Recommendation No. 1.30: That the corporation develop the capability to provide segregated information as to the allocation of premiums paid for the various different risks which the basic premium insures (if that ability is not presently within the corporation's grasp), and that the vehicle registration/insurance certificate be redesigned to provide that information to the purchaser of basic Autopac insurance. (Page 52)

IV. POSITION PAPER NO. 2: BODILY INJURY COMPENSATION

The terms of reference under which I accepted the task of reviewing Autopac required me to consider "ways to reduce Autopac costs . . . while maintaining high quality automobile insurance to Manitoba drivers on a self-sustaining basis".

In approaching the task at the outset, I was aware that insurance companies had claimed that the sharp increases in the cost of automobile insurance were due to the escalating costs of bodily injury compensation.

Indeed, as I was to learn during the course of the review, Autopac's expenditures attributable to bodily injury compensation payments, annually, for the fiscal years 1984 to 1987 increased by 100 percent from approximately $40 million to $80 million. Vehicle repair costs for that period had also increased, but proportionately much less than the costs of bodily injury compensation. The unadjusted cost of property damage rose from about $110 million in 1984 to $160 million in 1987, an increase of 45 percent.

Through initial research, I became aware that the province of Quebec, several American states and New Zealand claimed to have discovered methods by which to provide good bodily injury insurance compensation coverage at a more reasonable cost than that available under other systems.

I saw my task, at the outset, as studying each of those other systems and comparing their characteristics respectively with those of Autopac to determine whether those systems or aspects of them might be usefully adapted to Manitoba.

To assist me in that study, I commissioned the preparation of a research project upon the characteristics of the no-fault bodily injury compensation insurance plans currently established in Quebec, in 15 American jurisdictions, and in New Zealand. I also retained actuarial advice

o for the purpose of testing whether through some modest measures to limit the extent of tort recovery, the no-fault benefits under the present plan could be increased to a more acceptable level, while still reducing the overall costs of Autopac, and

o to test how these other insurance plans which I examined might be adapted to Manitoba with beneficial results.

In the course of preparing this position paper, in the conclusions which I have drawn and in the recommendations which I have made, I have relied upon the information furnished to me through the research project and through the actuaries' calculations.

By comparing in some detail the characteristics of Autopac insurance with the other established insurance systems, by developing actuarial models to illustrate how those other systems would apply in Manitoba and by studying the literature relating to the tort system as a vehicle to provide bodily injury compensation, it became evident to me that as alternatives to the bodily injury compensation insurance under Autopac, those systems, and particularly that system established in Quebec, should be considered.

A. MAIN CONCLUSIONS

- Voluntary mediation through a board established to attempt the resolution of disputes in automobile accident cases within the tort system might resolve disputes and reduce both costs and delay.
- Section 6(2) of the MPIC act inadequately recognizes the value of rehabilitation.
- The corporation's rehabilitation program provides useful assistance, but seems limited in scope and does not appear to be pro-active.
- The tort system has the capacity to be grievously inequitable and does operate to produce harsh inequities.

- The ability of the tort system to deter negligent driving is not supported by evidence, nor in light of public liability insurance is it supported by common sense.
- The mere hope that the tort system may deter negligent driving is not by itself sufficient justification for its perpetuation.
- Fault is unsatisfactory as a criterion upon which to base entitlement to adequate compensation for injuries resulting from motor vehicle accidents. It can fail to compensate the innocent, or can fail to compensate the innocent to an acceptable level, and it will fail to compensate normally careful drivers who make a mistake.
- The present add-on no-fault insurance provided by the corporation is inadequate.
- The costs of the present system cannot be reduced without significant impairment of benefits.
- Improving the benefits under the present no-fault plan, and reducing slightly the costs associated with tort recovery, would increase overall costs.
- A modified no-fault plan would reduce costs, but retain the inequities of the tort system.
- Under the pure no-fault plan envisaged by this position paper it is feasible to provide, among other benefits, income replacement to a maximum of $500.00 per week and impairment benefits to a limit of $200,000.00. These benefits, it is estimated, would have resulted in

Autopac savings for 1987 of $39.8 million, or 17.5 percent of the total losses sustained by the corporation. It would have resulted in reducing the losses for bodily injury compensation by about 44 percent.

- The highest priority for an automobile insurance plan should be to provide a reasonable living standard for those who are rendered severely and permanently disabled as a result of injuries sustained in a motor vehicle accident.
- The maximum income replacement benefit in the adoption of a pure no-fault plan in Manitoba will not, in some cases, adequately protect certain income earners.
- Disputes concerning entitlement to benefits and the quantum of benefits payable under a no-fault plan will arise.
- Constitutional questions concerning the validity of a pure no-fault plan are open.

B. RECOMMENDATIONS

Recommendation 2:01: That the government of Manitoba, with the assistance of the Manitoba branch of the Canadian Bar Association, establish a voluntary mediation process through an appointed board, as a two year pilot project for the resolution of disputes in automobile accident cases. (Page 102)

Recommendation 2:02: That regulation 6(2) of the corporation's regulations be amended to enhance official recognition of the importance of rehabilitation, and that the corporation develop a policy toward rehabilitation which will enable it to conduct, coordinate, direct or participate in rehabilitation programs to assist the return to normal life of the temporarily and partially disabled, as well as the severely disabled as far and as quickly as it is possible. Such programs should be supportive, not threatening. (Page 103)

Recommendation 2:03: That the constitutional issues, relating to restriction of court access presently before the Supreme Court of Canada, be monitored. If the issue decided by the Supreme Court of Canada leaves doubt as to the constitutionality of a pure no-fault automobile insurance plan, that a reference be directed to the Manitoba Court of Appeal for its opinion concerning the introduction of a pure no-fault plan in Manitoba. (Page 103)

Recommendation 2.04: That if pure no-fault insurance is constitutional, a pure no-fault insurance plan be established in Manitoba, generally following the model of the pure no-fault automobile insurance plan outlined in model 3 of this position paper. (Page 103)

Recommendation 2.05: That under a pure no-fault plan there be a limitation of benefits for those insured whose injuries are caused by their own conduct for which they are convicted of a criminal offense -- by a denial of coverage for impairment benefits and by restricting disability benefits to a period commencing one year following the accident from which the injuries resulted -- except when, on application to the court by the insured, it is established that responsibility for the accident was not primarily that of the insured. (Page 103)

Recommendation 2.06: That under a pure no-fault plan where the corporation is bound to pay no-fault benefits to an injured party -- due to an accident caused by an insured driver who is convicted of a criminal offense arising from the accident -- the corporation be accorded the right to sue and recover from the insured the amount of any compensation paid to the injured party, if it is established that the accident was caused primarily by the insured. (Page 103)

Recommendation 2.07: That under a pure no-fault plan the government establish an independent arbitration board to entertain claimants' appeals of MPIC decisions relating to their entitlement to compensation within the structure of benefits allowed, and any other matter relating to the claimant's entitlement to benefits under the plan. (Page 104)

Recommendation 2.08: That under a pure no-fault plan when the claimant is aggrieved by the decision of the arbitration board, there be provided a right to appeal the board's decision to the court. (Page 104)

Recommendation 2.09: That under a pure no-fault system the corporation be permitted to appeal the decision of the arbitration board to the court, but that it be obliged to pay the reasonable fees and disbursements of counsel retained by the complainant to represent him or her as respondent. (Page 104)

Recommendation 2.10: That under a pure no-fault system the corporation explore with private sector insurers whether there is interest within the private sector to offer income replacement extension coverage beyond the basic limit. Should the response be positive, the corporation should not enter the field of extension insurance coverage for income replacement. If the response is negative, the corporation itself should offer extension coverage for income replacement above the basic limit at premiums that are actuarially based and calculated to earn a reasonable profit for application to the enhancement of safety programs. (Page 104)

Recommendation 2.11: That in the benefit structure of a pure no-fault plan, priority be given to adequate compensation for the severely and permanently disabled, at the expense, if necessary, of compensation for injuries which are minor. (Page 105)

V. POSITION PAPER NO. 3: RATEMAKING AND COVERAGE

Insurance is a compact whereby an insured pays a certain small amount, the premium, to an insurer. In return uncertain large losses, or risks, are borne by the insurer. Fixing a fair premium, which compensates for this transfer of risk, is a core activity of an insurance company. Premiums charged by MPIC, like those of any insurer, must:

- Reflect the actuarially-determined risks of any particular business.
- Be structured to be true to MPIC's general purposes and to raise sufficient overall revenue to maintain MPIC's financial health.

Risks can be assessed through the informed judgement of underwriters, through observation of an individual's pattern of loss or through the grouping of like risks, a method known as "classification". MPIC relies upon a classification system for basic Autopac, adjusted for surcharges reflecting an owner's driving record.

The unheralded sharp increases in overall premiums for 1988 prompted a public furor which led to the establishment of this commission. The commission's public hearings allowed MPIC's policyholders to voice criticisms of specific weaknesses in the rating systems.

The commission examined a number of questions of increasing specificity:

- Has MPIC's ratemaking been forthright and responsive?
- How should compulsory vehicle insurance be financed? That is, what proportion of the total premiums ought to derive from vehicle premiums, drivers' licence fees, surcharges, gas taxes and government subsidies? Is MPIC enjoying hidden subsidies?
- How did MPIC make rates from 1983 to 1988? Is ratemaking adequately and fairly conducted? Did government interfere?
- Are the many specific concerns of the policyholders valid or groundless?
- Should all-perils coverages be compulsory or optional?
- Is vehicle manufacturing technology inflating repair costs and, so, premiums?

A. MAIN CONCLUSIONS

- Autopac premiums overall are among the lowest in Canada and have been designed since Autopac's inception to be more "level" than in private schemes. "Level" means that the rate differentials between poorer and better risks are less marked than elsewhere: surcharges are less punitive, discounts less generous.

- Autopac makes rates notably different from its private sector counterparts in five important areas:
  - MPIC assigns new passenger cars to nine rating groups according simply to base factory price rather than according to price, history of repair costs and incidence of accidents.
  - MPIC avoids classifying according to driver age, gender or marital status. Though not in keeping with industry practice in some places, Autopac's approach is non-discriminatory and appropriate.
  - MPIC provides discounts and imposes surcharges, relative to an owner's accident record, to a lesser degree than private insurers.
  - MPIC employs merit/demerit points to rate drivers convicted of moving offenses, maintained by the Manitoba department of highways, a practice not readily available to private insurers.
  - Collision coverage is mandatory, rather than optional.
- Passenger car insurance claims and premiums have been escalating in North America. Although the reasons remain uncertain, analysts point to higher liability settlements and to rising repair costs due to more sophisticated vehicles.

- Vehicle insurance should be financed largely through premiums reflecting a vehicle's characteristics and how it is driven (use, value, territory). There is a large body of vehicle insurance experience and related data available in North America which supports sophisticated ratemaking of vehicles. However, a portion of the premium burden in Manitoba should continue to be shouldered by drivers and related to specific benefits.

- The current surcharge system, which penalizes both accident-prone drivers and drivers convicted of moving offenses, is complex and deficient in many details. It needs thorough restructuring to offer deeper discounts for consistent good driving and to penalize persistent poor motoring, without being so punitive as to encourage driving without registration and insurance.

- Gas taxes and highway tolls are unacceptable methods of raising revenue to finance vehicle insurance.

- There is no evidence of material subsidies of Autopac by the Manitoba government or any of its agencies. However, the current cost-sharing arrangement between the department of highways and MPIC, covering inter-related administrative process, may be unfair to the department. Certain regulatory activities and safety programs, traditionally operated by the Manitoba department of highways, were imposed on MPIC in 1986. Government does not and should not make general-purpose grants to Autopac.

- Autopac ratemaking from 1983 to 1988 may be characterized as follows:

  - From 1985 on, cabinet appears to have become much more directly involved in ratemaking.

  - Appropriate statistical and financial data were either not available or not considered in 1987 or 1988.

  - The ratemaking process does not meet fully standards for actuarial analysis.

  - The allocation of rate increases to various classes of vehicles was at times arbitrary.

  - The corporation lacks a formal internal process for sound ratemaking.

- Autopac is taking advantage of its monopoly to overprice some extension coverages (which exist in, at best, a quasi-competitive marketplace dominated by MPIC because of its monopoly in basic insurance).

- The rating system for passenger vehicles -- whereby new cars are assigned to a rating group on the basis of base factory price -- is greatly flawed. It must be restructured completely.

- The process of periodically vintaging cars down to lower rating groups with lower premiums is carried out in the absence of written guidelines and does not reflect a car's value.

- Autopac extends special premiums to antique cars, older than 30 years, but not "collector" cars, 15 to 30 years old. Autopac should investigate offering this service.

- Autopac should proceed with its plans to make new car replacement insurance available as an option.

- Premiums for farm trucks and, to a lesser degree farm cars, appear to be too low relative to the five year pattern of losses. The premiums should be increased in keeping with insurance principles.

- Premiums for all purpose use appear to be low relative to the five year pattern of losses. These premiums should be increased in keeping with insurance principles. The statutory definition of the all purpose use has a number of drawbacks which should be rectified.

- Premiums for students are fixed under the preferred use classification, unlike those for their teachers which are based on all-purpose use. Premiums for students should revert to levels commensurate with all purpose use.

- Autopac should develop a special premium for commuters into Winnipeg, who otherwise pay premiums not associated with their exposure to risk.

- Autopac should discontinue the lease category. Leased vehicles should be assigned to whichever of the remaining uses apply.

- The MPIC Act should be amended to clarify that basic insurance for rental vehicles is to be exclusively provided by Autopac at scheduled rates.

- Autopac and the registrar of motor vehicles should permit agents to sell temporary demonstration for sale registrations.

- Autopac's fleet rebate/surcharge system may be improved through the addition of fleet-specific, experienced-based ratings.

- Autopac's premium structure may discriminate against public service vehicles (which carry other person's cargoes) in contrast to heavy commercial trucks (which carry the owner's own cargo).

- Autopac has been inflexible until this year in responding to trucker's representations concerning changes to the available all-perils coverage, namely in the available levels of deductibles and third party liability coverage. For a monopoly, this is unacceptable. There have been signs over the past few months that this climate of intransigence is being replaced by an atmosphere of negotiation.

- Autopac should offer, as an option, deductibles above the basic $350. This would allow vehicle owners to forego, in effect, all-perils coverage for low value vehicles.

- Autopac should include underinsured motorist coverage in the basic plan at the same level as the third party liability level selected by the policyholder. The increase to basic premiums would be very low.

- Autopac should calculate and gradually eliminate the persistent cross subsidies apparent among its lines of coverage.

- Autopac should re-examine its basic motorcycle rating system.

- Autopac should retain optional comprehensive coverage for motorcycles.

- Autopac's rebating policies for motorcyclists, while in part justifiable, suffer from a number of problems related to the precise rebating schedule used and the rebating for comprehensive and passenger hazard coverages.

- Third party liability coverage does not automatically cover the motorcycle owner for losses sustained by his or her passenger.

- Motorcycles cause about 45 percent of the accidents in which they are involved.

- Motorcyclists were denied good driver discounts in 1988.

- Motorcyclists are offered no time payment system; but to do so may be costly.

- Autopac premiums for motorhomes appear to be unjustifiably high and, for higher priced motorhomes, rose by nearly 50 percent in 1988. An unheralded increase of this magnitude is unacceptable in any one year.

- Collision coverage should remain mandatory for the time being, because otherwise Autopac might lose its economies of scale which permit it to offer service throughout Manitoba. However, as noted above, deductibles at fixed gradations above $350 and at lower premiums should be allowed as an option.

- Technological innovations in automotive manufacturing are causing unknown, but possibly profound, effects on vehicle repair costs. Autopac should cultivate the means to monitor these developments for Manitoba, as MPIC today can do no more than point to experiences.

B. RECOMMENDATIONS

Recommendation No. 3.01: That MPIC develop a consultation routine, by December 31, 1989, which provides policyholders with the orderly opportunity to comment on rating proposals which affect them, prior to the implementation of the proposals. (Page 5)

Recommendation No. 3.02: That MPIC, under its current rating system, link the level of the basic driver charge to one or more specific bodily injury benefits, effective insurance year 1989 and remaining in effect until a pure no-fault benefit program or a new method of driver rating is introduced. (Page 16)

Recommendation No. 3.03: That, effective not later than insurance year 1992, MPIC replace its accident-surcharge system with a system of discounts and surcharges. In particular, that MPIC offer maximum discounts to drivers without any at-fault accidents over five consecutive years and reduce the discount by 50 percent, in the event of the first accident in such a period. (Page 22)

Recommendation No. 3.04: That, as an interim measure, beginning with insurance year 1989, MPIC impose a $50 charge for a first accident, and, furthermore, increase the current charges for multiple accidents by $50. (Page 23)

Recommendation No. 3.05: That the merit/demerit point system be restructured thoroughly or replaced by a superior driver rating method, effective not later than insurance year 1990, in order to introduce more equity and simplicity. (Page 31)

Recommendation No. 3.06: That, effective insurance year 1989, MPIC charge a graduated penalty to drivers with one to five demerit points, allow out-of-province merit points to be taken into account and, for merit points affecting vehicle premiums, establish a fairer qualifying policy. (Page 31)

Recommendation No. 3.07: That no gas tax be imposed for the purpose of subsidizing vehicle insurance plans. (Page 35)

Recommendation No. 3.08: That MPIC enter into a joint study with the Manitoba Health Services Commission in order to establish, by December 31, 1989, the benefits and costs to both organizations of initiating a simplified chargeback mechanism. (Page 37)

Recommendation No. 3.09: That the Manitoba government empower an authority, independent of MPIC and the Manitoba department of highways, to conduct a study of the cost-sharing arrangements between MPIC and the department, and to report by December 31, 1989. (Page 38)

Recommendation No. 3.10: That the vehicle inspection and driver education programs, transferred from the Manitoba department of highways to MPIC in 1986, be returned to the department in 1989; that other transferred programs be evaluated for relevance to the department's and MPIC's objectives by December 31, 1989; and that MPIC pursue aggressively the economical expansion of its own safety programs. (Page 41)

Recommendation No. 3.11: That management and the board of directors be granted the authority publicly by government to finalize rates, subject only to review by the Public Utilities Board. (Page 56)

Recommendation No. 3.12: That, effective not later than insurance year 1991, MPIC develop an actuarially-sound and statistically-driven ratemaking system. (Page 56)

Recommendation No. 3.13: That, effective not later than insurance year 1990, MPIC management assign ratemaking responsibility to a new senior management position with such assistance, including actuarial assistance, as may be required for managing the internal ratemaking system. (Page 56)

Recommendation No. 3.14: That, effective not later than insurance year 1990, premiums for extension coverage be set in accordance with risks and costs. (Page 58)

Recommendation No. 3.15: That, effective not later than insurance year 1991, MPIC revise thoroughly the rating group system to reflect loss experience. (Page 61)

Recommendation No. 3.16: That the original factory base price criterion for assignment of a passenger car to a rating group be eliminated in not more than two years. (Page 61)

Recommendation No. 3.17: That the special rating of vans and station wagons, if unjustifiable, be stopped effective insurance year 1989. (Page 62)

Recommendation No. 3.18: That revisions be made to MPIC's vintaging or downgrading policy, in conjunction with the revamping of the rating groups, to reflect more accurately MPIC's risks; and that, effective not later than insurance year 1990, a written vintaging policy be prepared which takes into account the value of total losses, and the cost of repairing cars, less acknowledged depreciation. (Page 64)

Recommendation No. 3.19: That, effective not later than insurance year 1990, MPIC institute special coverage for cars over 15 years old used solely for display purposes. (Page 66)

Recommendation No. 3.20: That, effective not later than insurance year 1990, the rating of farm trucks be made relatively consistent with the ratings for other vehicles; that is, premiums should depend on the loss experiences for these trucks. (Page 67)

Recommendation No. 3.21: That, effective not later than insurance year 1990, the definition of a "farm car" in The MPIC Act and regulations be amended so as to exclude vehicle use for non-farm purposes and that rates for farm cars be brought into line with the loss experiences for these cars. (Page 68)

Recommendation No. 3.22: That, effective not later than insurance year 1990, premiums for all purpose use be modified to reflect loss experiences for this use. (Page 68)

Recommendation No. 3.23: That, effective not later than insurance year 1990, The MPIC Act and regulations be amended so as to enable MPIC to control more carefully the policyholders to whom the preferred classification is to apply. (Page 69)

Recommendation No. 3.24: That, effective not later than insurance year 1990, a student who drives a car to school be charged all purpose rates. (Page 70)

Recommendation No. 3.25: That, effective not later than insurance year 1990, MPIC develop a proposal to charge increased rates for commuters, either by changing the criteria used to assign vehicles to territories or by means of a new use code specifically for policyholders who work or attend an educational institution in a territory with higher rates than their territory of residence. (Page 70)

Recommendation No. 3.26: That, effective not later than insurance year 1989, the "leased" use be discontinued by MPIC and that leased passenger cars be classified for insurance purposes according to the use to which they are put. (Page 71)

Recommendation No. 3.27: That, effective not later than insurance year 1991, The MPIC Act and regulations be amended so as to clarify that MPIC alone may provide, lawfully, basic insurance coverage on rental vehicles at scheduled rates. (Page 73)

Recommendation No. 3.28: That, effective insurance year 1989, the use "demonstration for sale" be made available through Autopac agents. (Page 74)

Recommendation No. 3.29: That, not later than December 31, 1989, MPIC complete a study of fleet ratemaking to provide for more extensive individual underwriting of fleets and for the setting of rates, possibly supported by a system of rebates and surcharges, that reflect MPIC's loss experience with specific fleets. (Page 75)

Recommendation No. 3.30: That, effective insurance year 1989, MPIC review its ratemaking for heavy commercial trucks and public service vehicles and either publicly justify the rating differences or eliminate them. (Page 76)

Recommendation No. 3.31: That, effective not later than insurance year 1991, trucking rates be experience-based, and that, effective not later than insurance year 1989, offered coverages be sensitive to the requirements of the trucking market. (Page 77)

Recommendation No. 3.32: That, before December 31, 1989, MPIC report on a thorough examination of both the geographical dispersion of Autopac losses and the opportunities to strengthen the homogeneity of loss experience in the territories used for Autopac ratemaking. (Page 78)

Recommendation No. 3.33: That, effective insurance year 1989, increases in deductibles be introduced regularly and gradually and parallel increases in vehicle repairs and/or the cost of living; and that deductibles only be increased in reasonable increments (perhaps $25). (Page 80)

Recommendation No. 3.34: That, effective not later than insurance year 1991, MPIC base the premium for deductible buy-down on actual loss experience for each rating group. (Page 81)

Recommendation No. 3.35: That, effective insurance year 1989, deductibles higher than $350, with a maximum of at least $1,000, be offered as options for passenger cars, and that premiums be reduced commensurately. (Page 81)

Recommendation No. 3.36: That, effective insurance year 1989, as part of the basic Autopac coverage, MPIC provide automatic protection for claims against underinsured motorists up to the limit of third party liability purchased. (Page 82)

Recommendation No. 3.37: That persistent, material, cross-subsidies among automobile insurance coverages, if present, be eliminated gradually by insurance year 1995. (Page 83)

Recommendation No. 3.38: That, by December 31, 1989, MPIC analyze and publicly report upon the need for a more sophisticated rating system for motorcycles. (Page 86)

Recommendation No. 3.39: That, effective not later than insurance year 1991, motorcycle premiums should be based on loss experience. (Page 87)

Recommendation No. 3.40: That, effective not later than insurance year 1990, MPIC offer motorcyclists a 12 month combination policy providing protection against road perils from April to November and comprehensive perils throughout the year including storage. (Page 88)

Recommendation No. 3.41: That, effective insurance year 1989, MPIC include passenger hazard with the basic coverage for all motorcycles which have seating for more than one person. (Page 88)

Recommendation No. 3.42: That, effective not later than insurance year 1990, MPIC revise the motorcycle rebate schedules to provide for actual prorating less only reasonable service charges. (Page 90)

Recommendation No. 3.43: That, by December 31, 1990, MPIC conduct or obtain research into the issue of causation in accidents involving motorcycles. (Page 91)

Recommendation No. 3.44: That, effective insurance year 1989, MPIC offer merit point discounts to motorcyclists on the same basis as discounts are awarded for other vehicles. (Page 91)

Recommendation No. 3.45: That, effective not later than insurance year 1990, MPIC develop time payment options for motorcyclists, calculate the associated costs, and consult with motorcyclists about whether a time payment plan is desired. (Page 92)

Recommendation No. 3.46: That, effective insurance year 1989, motorhome premiums be restructured so as to be based more exactly upon experience with motorhome losses. (Page 93)

Recommendation No. 3.47: That all-perils coverage remain compulsory for Manitobans, but that MPIC design and offer higher deductible options in relation to all-perils coverage. (Page 97)

Recommendation No. 3.48: That, effective not later than December 31, 1989, MPIC develop the means to assess the impact of changing automotive technology upon its loss experience and upon requirements to repair vehicles, including the estimating of damage and controlling of subsequent repair work. (Page 98)

Recommendation No. 3.49: That effective immediately, MPIC in its annual reports and other publications, compare trends in its losses to those of other insurance organizations only when it can do so factually in terms of its own experience. (Page 98)

VI. POSITION NO. 4 : ENHANCING POLICY HOLDER SERVICES

One of the main functions of an insurance company is to provide services to policyholders when policies are sold, renewed or revised. For this work, MPIC, like other insurance companies, uses a network of licenced agents. Except for claims, this is the only person-to-person contact that Autopac policyholders normally have with MPIC. Therefore, it should be informative, professional, and efficient.

Agents operating from about 400 Autopac outlets handled over 1.4 million transactions in 1987. Most of these were renewals and new applications, although other transactions are processed such as transfers of coverage, changes of address, and revised declarations of use. The volume of transactions is a useful measure of policy-servicing work; since 1978, transaction volume has grown from about 1.1 to 1.4 million or by 30 percent.

The commission assessed policyholder services from two perspectives. I sought to determine whether policy renewals and other established services were meeting policyholder needs. Also, I wished to examine the potential to add new services and thus strengthen the relationship between policyholders and MPIC.

A. MAIN CONCLUSIONS

- There is no apparent justification for the establishment of the Manitoba department of highways as a commissioned agent.

- The current agency system serves the consumer needs of Manitobans well.
- Autopac agency incomes have more than kept pace with the cost of living (on average and in total) over the last ten years.
- Flat fees would be a fairer approach than commissions for the compulsory basic portion of Autopac.
- The corporation provides a more advantageous time payment plan to its commercial policy holders than for other policy holders.

B. RECOMMENDATIONS

Recommendation No. 4.01: That, effective insurance year 1989, the agency currently operated by the Manitoba department of highways be decommissioned if the department is unwilling to waive the commission it now receives. (Page 4)

Recommendation No. 4.02: That a carefully controlled network of commissioned agents continue to be the major distribution channel for Autopac policyholder services. (Page 6).

Recommendation No. 4.03: That, effective not later than insurance year 1990, Autopac agents be compensated by means of:

- A schedule of fixed fees for assisting in the writing and administering of basic Autopac insurance.

- Percentage commissions for assisting in the writing and administering of extension Autopac insurance.

And, further, that MPIC consult regularly about changes in agents' compensation with the Insurance Brokers' Association.
(Page 10)

Recommendation No. 4.04: That, effective not later than insurance year 1990, MPIC modify its time payment plans so as to make them similar in financial effect for different classes of vehicles, and so as to charge an administrative fee that compensates the corporation for its administrative costs; and that MPIC study how and whether,

- its time payment plans can account in a simple fashion for the investment income foregone by MPIC,

- the time payment plans for all vehicles, except where impractical, should be adjusted to allow for a 25 percent initial payment, followed by three equal quarterly payments, with participants identified by a special sticker. (Page 15)

Recommendation No. 4.05: That, effective not later than insurance year 1991, MPIC convert to a system of policy renewals throughout the year in order to facilitate automation and to earn more income on the Autopac premium float. (Page 19)

Recommendation No. 4.06: That, if the birth month becomes the determining factor for renewal of insurance coverage and vehicle registration, authority be granted to Autopac agents to validate drivers licenses in centres where there are division of driver and vehicle licensing offices, as well as where there are none, as at present. (Page 22)

Recommendation No. 4.07: That the government of Manitoba should guarantee jobs for staff of the division of driver and vehicle licensing, made redundant by these proposed changes. (Page 22)

Recommendation No. 4.08: That MPIC conduct and publish a study, by not later than December 31, 1989, regarding the merits and costs of birthdate renewals. (Page 23)

VII. POSITION PAPER NO. 5: IMPROVING THE EFFICIENCY AND QUALITY OF VEHICLE REPAIRS

Vehicle damage and repairs are important to Autopac both financially and economically. In the fiscal year ending October 31, 1987, The Manitoba Public Insurance Corporation spent $171 million on vehicle repairs.

Members of the automotive trade and of the general public hold contrary views on vehicle repairs. Automotive trade representatives contend that MPIC compensates them inadequately for their work due to unrealistically low rates. MPIC is perceived as being autocratic: the discussions that take place between the corporation and the automotive trade do not seem, in their estimation, to be fair negotiations. Moreover, they believe that the political benefits that accrue from low labour rates weaken their bargaining position.

Members of the general public frequently hold the opposite view. I received both verbal and written submissions in which the opinion was expressed that MPIC was paying too much for repairs. The automotive trades were depicted as taking advantage of the corporation by carrying out unnecessary work and charging too much.

A. MAIN CONCLUSIONS

- The corporation's commitment to a claims centre approach is a good one.

- The corporation's use of the Mitchell Manual in estimating repairs and its use of exceptions to these manuals is reasonable and within industry norms.

- There is a potential benefit to the corporation in the use of automated estimating which has not been adequately examined.

- Labour rates paid by the corporation appear to be reasonable.

- The corporation makes no use of aftermarket parts to the potential detriment of its total repair costs.

- The corporation uses recycled parts but the use is below that reported by other insurers.

- The corporation is aggressive in its attempts to discourage surcharging on parts pricing but is less successful than it might be with an automated approach.

- The corporation's policy, with regard to glass replacement versus repair, is a reasonable one.

- There is no factual evidence to support criticism of the corporation's towing policy.

- Total loss write-off practices seem to be reasonable from an insurance practice standpoint. Concerns relating to negotiation practices with insureds are discussed in Position Paper No. 6.

- There is a potential safety problem with restoration of seriously damaged vehicles.

- Selling of total loss vehicles at auction or back to the insured appears to be a beneficial approach financially to the disposal of these assets.

- I cannot conclude that the corporation treats the automotive trades unfairly.

- Extra billing to the claimant by repair shops would cause a deterioration of relations between the trades, the corporation and claimants.

B. RECOMMENDATIONS

Recommendation No. 5.01: That Autopac examine the feasibility of offering a free post-repair inspection service on both a compulsory basis, in the case of major repairs, and an optional basis, in respect to other repairs. (Page 8)

Recommendation No. 5.02: That MPIC retain an independent consultant to assess whether the original Audatex pilot study was properly designed and executed; and further, if the design was defective in any significant way, that MPIC conduct a new evaluation of Audatex. (Page 11)

Recommendation No. 5.03: That MPIC re-evaluate its policy of rejecting the use of aftermarket parts. (Page 15)

Recommendation No. 5.04: That MPIC assess the reason for its lower use of recycled parts compared to the industry across Canada, and that it increase its use of recycled parts when it is appropriate and possible to do so. (Page 16)

Recommendation No. 5.05: That MPIC develop a clear policy on when windshield replacement shall be specified for safety reasons; and further, that all estimators and adjusters be so instructed. (Page 18)

Recommendation No. 5.06: That the corporation ensure that all windshield damage claimants be advised of the repair alternative and the potential advantages. (Page 18)

Recommendation No. 5.07: That the registrar of motor vehicles, in conjunction with MPIC, develop controls to ensure the safe restoration of total loss vehicles and the prohibition of restoration of vehicles that cannot be safely repaired, and further that vehicles deemed "dangerous" to repair be identified and inspected prior to re-registration. (Page 23)

Recommendation No. 5.08: That the corporation investigate the feasibility of establishing a selective vehicle inspection program for restored vehicles, used vehicles and vehicles seeking registration in Manitoba for the first time, and report the results of the investigation. (Page 25)

Recommendation No. 5:09: That, by December 31, 1989, the corporation study shop accreditation in terms of quality assurance and make and publish a decision in principle concerning the issue of shop accreditation. (Page 26)

Recommendation No. 5:10: That, should the decision favour shop accreditation, the task of designing accreditation standards and other details associated with accreditation, be performed with input from the industry, and that accreditation be implemented within a time frame agreed to between MPIC and representatives of the industry. (Page 26)

VIII. POSITION PAPER NO. 6: STRENGTHENING CLAIMS SERVICE

With the exception of a brief encounter with an Autopac agent or an Autopac employee at renewal time, the most common contact between an insured and The Manitoba Public Insurance Corporation occurs when he or she has the misfortune to make a claim. Because it can be a painful and difficult time for the insured, it is important that treatment be fair and prompt.

A. MAIN CONCLUSIONS

- Autopac claims services are generally well managed.
- There appears to be potential to improve the detection of fraudulent claims and reduce MPIC's costs.
- There does not appear to be a significant backlog in the handling of vehicle damage claims. However, a backlog remains in bodily injury claims, and in the special investigations unit.
- The corporation has not responded adequately to criticism made by the provincial ombudsman about the adjusting of total loss vehicle claims.
- The corporation does not inform claimants properly when it advises them that MPIC will abide by decisions of a court concerning findings of responsibility for a loss.

B. RECOMMENDATIONS

Recommendation No. 6.01: That the actual cash value worksheet be attached to the proof of loss form provided to a claimant in respect of a total loss vehicle. (Page 7)

Recommendation No. 6.02: That the claimant be made aware, in writing from the outset of the factors considered by the corporation in determining the actual cash value of a loss, including the use of the gold book and the manner by which value is affected by any other factor considered. (Page 7)

Recommendation No. 6.03: That the office of the provincial ombudsman be empowered specifically to receive and investigate complaints concerning the treatment of claimants in respect of total loss settlements and that MPIC be required to respond to the inquiries of the ombudsman within ten working days of its receipt of a request for information from the ombudsman. (Page 7)

Recommendation No. 6.04: That the provincial ombudsman be empowered to make recommendations to MPIC in any case which has been the subject of review by him or her. (Page 8)

Recommendation No. 6.05: That Autopac develop and provide to each claimant a clear statement of the avenues of appeal open to him or her concerning decisions made by the corporation. (Page 8)

Recommendation No. 6.06: That MPIC, with assistance from representatives of the automotive trades, develop a list of persons who are knowledgeable concerning the quality of repairs and the evaluation of total-loss vehicles, in order to assist those claimants who may wish to challenge a decision of a corporation official through the arbitration process. (Page 9)

Recommendation No. 6.07: That MPIC strive to be honest, forthright and direct in its correspondence with insured persons. (Page 9)

Recommendation No. 6.08: That the corporation examine its assessment of doubtful or questionable claims and consider:

- Revising claims procedures so that the special investigations unit staff may assume greater responsibility for the initial screening of suspicious claims.
- Enhancing the training of claims centre staff, including their temporary assignment to the special investigations unit in order to enable them to more easily identify potential fraud.
- Expanding the types of cases that are routinely referred to the special investigations unit, including vandalism claims.
- Authorizing special investigations unit staff to conduct audits at claims centre both to identify suspicious claims and to provide training to staff.
- Maintaining, with more consistency, an adequate complement of staff in the special investigations unit.
- Intensifying assessment of the cost effectiveness of special investigations, particularly if the staff unit is expanded. (Page 10)

Recommendation No. 6.09: That the claims centre management audit a selection of bodily injury claim files at each claims centre to determine whether expeditious efforts are made consistently to settle these claims and, further, that continued steps be taken to monitor progress in settling bodily injury claims to ensure that undue delays are avoided. (Page 12)

Recommendation No. 6.10: That the corporation defer expansion of its claim centres and assess the potential to reassign claim centre staff positions to the bodily injury unit and the special investigation unit. (Page 12)

IX. PAPER NO. 7: FINANCIAL MANAGEMENT

Financial management is just as important for MPIC as it is for any insurance organization. In order to assess MPIC's financial affairs, the commission examined controls, planning, reporting, investments and surpluses, and the involvement of auditors and actuaries.

Manitobans did not present many specific grievances on Autopac financial affairs before the commission. Rather, the allegations suggested the taint of financial mismanagement in light of:

- The loss of $62 million reported by MPIC in 1987.
- Earlier reinsurance losses at the general insurance division.
- Poor returns on investments.

A. MAIN CONCLUSIONS

- The audit committee of the board of directors and the internal audit group have been too passive in ordering and conducting operational reviews.

- MPIC's financial managers, like other MPIC officials, appear to be somewhat isolated from the insurance industry and have limited formal contacts with two public insurance corporations in Saskatchewan and British Columbia.

- Generally, financial information and reporting is timely, accurate and well integrated with the budgetary process. However, many sources of financial and operational data exist and are not always consistent or harmonized.

- Separate accounts, as required by law, are maintained for Autopac and general insurance. Reinsurance losses in general insurance had no financial impact on Autopac. However, internal and external financial reports do not always distinguish Autopac and general insurance. Moreover, two specific motor vehicle insurance coverages -- special risk extension and seasonal lay-up policies -- are inappropriately sold and accounted for in general insurance instead of Autopac.

- The corporation's annual financial statements have been prepared in accordance with generally accepted accounting principles and have been accompanied by unqualified audit opinions. MPIC, moreover, has accepted usually the specific advice prepared by the auditors on detailed procedural changes.

- The corporation employed a consulting actuary to make a report on October 31, 1987. MPIC accepted all the actuary's recommendations for changes to its financial reserving practices and adjusted its financial statements for 1987 accordingly. MPIC has expressed its intention to employ either a consulting actuary or a staff actuary on a regular basis.

- The $62 million reported loss in 1986/87 is attributable to three roughly-equal factors alone: a budgeted loss of $22 million, a further loss of $19 million due to exceptional weather conditions over the winter of 1986/87, and adjustments of $21 million called for by the Tillinghast actuary employed in 1987. To avert such exceptionally large losses in any single future year, the corporation should avoid budgeting for losses and hereafter employ the services of an actuary.

- Relative to the Canadian insurance industry, MPIC has low administrative expenses, which enable it to return to policyholders, as claims paid and claims expenses, an amount about equal to premiums. This benefit arises because, as a monopoly, MPIC enjoys economies of scale in service and need not pay commission rates as high as those of private insurers.

- There would be no net financial benefit to Autopac or to the Manitoba government if the government injected equity capital. However, MPIC should restore its financial flexibility by building, over three to five years, a surplus position of approximately 15 percent of premiums written. This surplus would provide a cushion against potential losses and consequential rate shocks.

- MPIC's investments are largely managed by the department of finance of the Manitoba government. The performance of these securities has approximated that of other insurers in Canada despite a less diverse portfolio and relatively passive investment arrangement.

- As currently accounted, MPIC's reinsurance practices, in respect to Autopac, have made money. Accounting practices would be more revealing if administrative costs and the interest foregone on reinsurance premiums were included.

- MPIC has not undertaken sufficient analysis of its historical data; it remains fragmented and inconsistent.

B. RECOMMENDATIONS

Recommendation 7.01: That the internal financial audit department be given a mandate by the board of directors to conduct audits and operational reviews at the direction of the chief operating officer or the board, and further, that the department have the responsibility and authority to alert the chief executive officer or the board on its own initiative of financial weaknesses and potential needs for review. (Page 5)

Recommendation 7.02: That an organized program be undertaken in the corporate services and finance division to expand outside training and to broaden industry awareness. (Page 7)

Recommendation 7:03: That, effective fiscal year 1988/89, MPIC prepare a financial and statistical statement, including estimates of premium sufficiency, as at January

31, April 30, and July 31 of each year and, further, that this report be made public no later than 30 days following the end of each quarter. (Page 10)

Recommendation 7.04: That the financial statements for Autopac and general insurance, including balance sheets and all management reports, be separate and stand alone. (Page 12)

Recommendation 7.05: That special risk extension and lay-up policies be accounted for in Autopac. (Page 13)

Recommendation 7.06: That MPIC submit to its board of directors a plan for implementing the changes agreed to in its reply to the 1987 management letter of its auditors. (Page 16)

Recommendation 7.07: That, henceforth, MPIC employ an actuary either on staff and or as a consultant to assess continuously claims development and reserving practices, and that the actuary report to the chief underwriter. (Page 20)

Recommendation 7.08: That MPIC, in consultation with the department of finance of the government of Manitoba, develop a contract in which MPIC's investment rights and obligations are stated. (Page 21)

Recommendation 7.09: That MPIC carry out annual comparisons with ICBC and SGI in greater depth than now and with selected private insurance companies. (Page 25)

Recommendation 7.10: That the government of Manitoba not provide equity capital to MPIC. (Page 27)

Recommendation 7.11: That the government of Manitoba issue a public directive to the corporation setting an Autopac retained surplus target of about 15 percent of premiums. (This would amount to $40 to $50 million at prevailing premium levels.) The government directive should indicate that, if the Autopac surplus falls below ten percent or exceeds 20 percent of premiums, the corporation should and would be expected to take remedial action. (Page 30)

Recommendation 7.12: That the corporation not budget deliberately for losses in any year, but budget for surpluses where reserves have been reduced below target levels, and that budgeting for surpluses should be such as to result in depleted reserves being returned to the target range over a period of not more than five years, depending on the degree of depletion. (Page 30)

Recommendation 7.13: That, in the public interest, yield and maturity dates of MPIC investments be published in the annual report. (Page 34)

Recommendation 7.14: That MPIC calculate the lost interest costs on the reinsurance treaties pertaining to Autopac and include this in reports showing re-insurance profits/losses. (Page 36)

Recommendation 7.15: That MPIC develop a consistent and comprehensive historical claims database to assist in claims analysis. (Page 37)

Recommendation 7.16: That MPIC conduct a study of the merits and drawbacks of discounting to present value all long term claims where a definite term and amount are determined. (Page 38)

Recommendation 7.17: That the corporation secure an independent assessment as to the feasibility of improving its collection of past due Autopac premiums and of reducing its operating costs by drawing upon the services of one or more retail credit organizations. (Page 40)

X. POSITION PAPER NO. 8: MANAGEMENT OF HUMAN RESOURCES

While the commission's terms of reference pertained directly to Autopac, there is, within the corporation, shared responsibility for both automobile and general insurance lines. The commission, therefore, found it necessary to evaluate organization and staffing from a corporate perspective. In doing so, however, the commission's main focus of attention has been the adequacy of organization and staffing for the provision of automobile insurance.

To assess the management of human resources, the commission drew upon documents submitted by the corporation, upon the results of interviews the commission staff held with senior managers and finally, upon reports prepared by our consultants. In conducting research with the assistance of consultants, the commission sought to put before the public both facts and informed opinion. Consultants' reports provided but one source.

A. MAIN CONCLUSIONS

o With almost 80 percent of all permanent employees in one division, the corporation's current organization structure differs considerably from the one that was used during the preceding 16 years.

- There is a need to reconsider the corporation's structure, particularly the burden carried by the vice president of insurance operations.

- The corporation's analysis of other government-owned insurance companies suggests the number of employees appears appropriate in relation to the volume of business.

- The corporation's pay scales are not excessive when they are compared to those of other government-owned insurance organizations.

- The salaries attached to clerical positions are, in general, considerably higher than those offered by private insurance companies; this is due to government compensation policies rather than to those of MPIC.

- Although staff morale deteriorated during the corporation's ratemaking difficulties and subsequent reorganization, employee confidence appears to be in the process of restoration.

- The corporation is providing the opportunity for employees to advance to more senior positions; new employees are being hired mostly to fill entry-level positions.

- With the exception of in-house training for adjusters, too much of the corporation's staff development has been training in general subjects.

- Although the corporation has an employee appraisal system, it has not been used to determine needs for staff training.

- The corporation and MGEA appear to have a productive working relationship.
- The human resources division appears to be appropriately organized and to have sufficient capacity to support the corporation's requirements.
- The corporation has made progress in implementing a new human resources information system.
- A comprehensive job evaluation is in progress; this is expected to produce information on job relativity that will allow the corporation to refine its compensation.

The corporation has made many improvements since the last ministerial review. However, if the maximum benefit is to be realized, the corporation's senior managers will need to be committed fully to supporting current initiatives in job evaluation, training and compensation. This will be a major concern for the corporation's new chief executive officer.

B. RECOMMENDATIONS

Recommendation No. 8.01: That the corporation consider opportunities to attract a modestly higher proportion of applicants from outside the corporation, especially for supervisory, technical and professional positions, and further, to give effect to this recommendation, that the corporation advertise for both external and internal candidates for all positions with the rank of manager or higher. (Page 16)

Recommendation No. 8.02: That the corporation actively pursue avenues through which to improve the skills of its adjusters in processing motorcycle and large truck claims. (Page 18)

Recommendation No. 8.03: That the human resources department be responsible for the provision of staff development services rather than development per se of staff skills; and further, that the department do this by:

- Assisting managers and senior supervisors to define training needs.
- Maintaining lists, written descriptions and other documentation of training resources and regularly updating and publishing them to reflect new courses or other resources.
- Assisting other parts of the corporation to make suitable arrangements for training. (Page 19)

Recommendation No. 8.04: That the corporation commit itself first to strengthening the technical content of its staff development by improving training in estimating, adjusting and information systems. (Page 20)

Recommendation No. 8.05: That MPIC, once it completes its job evaluation project, conduct salary surveys to determine whether the findings support the current compensation structure, and, if not, that MPIC adjust its compensation structure as staff turns over. (Page 24)

Recommendation No. 8.06: That MPIC, on completion of the current job evaluation, revise its employee performance appraisal system to incorporate any new or changed criteria derived from the performance requirements identified for job positions and that this be done for all positions. (Page 27)

Recommendation No. 8.07: That the corporation develop policy and procedures that will permit non-union employees to present complaints or concerns for resolution to an independent and appropriately empowered authority. (Page 27)

Recommendation No. 8.08: That MPIC attempt to fix compensation -- by reference to criteria accepted by other insurance organizations -- for those positions within the corporation for which no equivalent positions exist in any other government organization. (Page 28)

Recommendation No. 8.09: That the corporation develop a collective bargaining strategy comprised of:

- o Statements of the long-term changes the corporation seeks in its unionized workforce.
- o A statement of the objectives that the corporation will pursue in its upcoming negotiations.
- o A description of the organizational arrangements the corporation will make in supporting these negotiations, including the formation of a negotiating committee, a mechanism for assessing the impact of changes in the agreement and a delineation of management responsibilities prior to and during negotiations. (Page 32)

Recommendation No. 8.10: That the human resources department assign higher priority to developing contacts with human resources management professionals employed by privately owned insurance companies and seek opportunities for the department's staff to participate in the professional development programs of associations of private insurance companies. (Page 35)

Recommendation No. 8.11: That the corporation assess requirements by managers and other employees outside Winnipeg for the services provided by the human resources department and assess opportunities to make improvements by:

- Improving the services now provided by Winnipeg staff of the department to managers and employees at work locations outside Winnipeg.

- Encouraging personnel outside Winnipeg to assume greater responsibility for human resources management functions under the general guidance of the human resources department.

- Assigning permanently one or more staff of the human resources department to locations outside Winnipeg. (Page 37)

Recommendation No. 8.12: That an employee of the human resources department be assigned to work with managers and staff in Brandon for as long as there is uncertainty regarding the role of the corporation in general insurance. (Page 37)

Recommendation No. 8.13: That the human resources department continue to report directly to the chief executive officer at least until completion of any major organizational changes MPIC decides to undertake over the next year or two. (Page 38)

Recommendation No. 8.14: That the human resources department and the community and corporate services department form a task force to develop a proposal for ongoing internal communications that would encompass such measures as staff briefings and internal publications. (Page 39)

Recommendation No. 8.15: That the corporation continue to assign priority to completing the implementation of the human resources information system. (Page 42)

XI. POSITION PAPER NO. 9: MANAGEMENT OF INFORMATION RESOURCES

In any year, the corporation must manage an enormous volume of data. Under Autopac, over three quarters of a million vehicles are insured. The corporation must also keep information on more than 600,000 motorists. In a typical year, MPIC processes about a quarter of a million Autopac claims. Because more complex claims, such as those for severe bodily injury, may take up to eight years to settle, MPIC must also maintain much historical data. The commission was informed that the amount of information kept in the corporation's files roughly doubles every two years.

Managing a large volume of data is only one information management challenge. The business is inheretly volatile. Claims frequencies rise or fall depending on driving habits, vehicle populations, weather and other factors. As MPIC's claims experience varies, so does the need for premiums. The fundamental financial requirement is the maintenance, over time, of an appropriate relationship of premiums to claims costs and expenses. The commission examined how MPIC manages operational data, the information it uses for normal day-to-day activities, as well as the information required by management for ratemaking and planning. I considered the corporation's need to manage the mass of information it receives, so that it may be utilized efficiently, as a resource.

There are many shortcomings in the corporation's management of information resources. These have serious implications for the corporation. In other position papers, I recommend major changes to Autopac including the adoption of experience-based ratemaking. MPIC's current information systems are not designed to support a major change in that direction, although, with difficulty, the corporation produced limited information on its experience within individual rating classes. Also, I have proposed that the corporation be more flexible in responding to market demands. To do this, it would have to be in a better position to alter the benefits and create new forms of extension coverage. Moreover, as part of the renewal cycle, I have proposed that the corporation provide policyholders with an accounting of the premium. All these improvements will depend much on the ability of the corporation to develop suitable computer systems.

- The information systems used by MPIC for Autopac are dated, do not provide for the efficient and timely capturing of data and cannot be enhanced economically to meet changing business needs.

- The mainframe computing facility used by the corporation has sufficient capacity to meet the corporation's current needs and can be expected to satisfy requirements in the future.

- Through Manitoba Data Services, the corporation has appropriate access to modern and powerful facilities for database management, network support, application development and end-user computing.

- Because the corporation's systems staff have had to concentrate on maintaining older computer systems, they have gained relatively little experience using newer tools for systems planning, design, development, operations and maintenance.

- The corporation's systems work appears to be governed by standards that vary from one application system to another.

- The policies, procedures and standards used by the corporation's systems staff do not appear to be adequately documented.

- Within the corporation, there is significant awareness of the need to strengthen the abilities of the corporation's information systems department.

B. RECOMMENDATIONS

Recommendation No. 9.01: That the corporation assign priority to specification of a long-term technical environment that will support the efficient and timely development of online database applications. (Page 16)

Recommendation No. 9.02: That the corporation assign priority to the acquisition or development of systems management standards and procedures after it has defined its long-term technical environment for systems development and management. (Page 17)

Recommendation No. 9.03: That the corporation consider long-term organizational development needs only when it has determined more precisely the technical resources upon which it will draw in replacing its older major application systems in accordance with an approved strategic systems plan. (Page 20)

Recommendation No. 9.04: That the corporation undertake to prepare a strategic systems plan that will serve as a foundation for future systems work. (Page 21)

XII. POSITION PAPER NO. 10: PUBLIC AWARENESS

The commission examined and assessed the overall public relations and communications practices and capabilities of The Manitoba Public Insurance Corporation. This review, of necessity, touched upon both Autopac publicity as well as more general subjects such as internal communications. As well, the communications functions at other provincial Crown corporations were examined for comparison purposes.

A. MAIN CONCLUSIONS

- The distinction, at least for the public, between the communications responsibilities of the corporation and the government have been unclear.
- Frequent changes in the senior management of the corporation have diminished the ability of the corporation to maintain a credible public presence.
- The information currently provided to policyholders and claimants about Autopac is inadequate; there is need for promotional materials on individual subjects to augment the corporation's current Autopac publications.
- The corporation has effective programs for internal communications including publications for employees.
- The corporation has yet to define how its communications will help it achieve corporate goals.
- The promotion of traffic safety is a communications function of MPIC.

B. RECOMMENDATIONS

Recommendation No. 10.01: That the MPIC communications department be restructured along functional lines and responsibilities assigned to individual professional staff for specific and distinct tasks. (Page 7)

Recommendation No. 10.02: That the corporation consider, in addition to a more specific assignment of the responsibilities to individual employees, a modest expansion of its public relations and advertising staff. (Page 11)

Recommendation No. 10.03: That MPIC's professional communications staff enhance their professional development by participating more in professional associations, seminars and training to increase their capabilities to manage diverse and sophisticated modern communications programs. (Page 11)

Recommendation No. 10.04: That the corporation, in accordance with and subject to the commission's recommendations concerning accountability, develop an independent corporate communications mandate and, further, that this be reinforced by the corporation's assumption of responsibility for announcing changes in rates or in the organization, including appointments of all senior staff. (Page 14)

Recommendation No. 10.05: That the corporation be required to employ the services of the communications services division of the Manitoba department of culture, heritage and recreation only for assistance in selecting advertising agencies and in purchasing advertising space or commercial time. (Page 18)

Recommendation No. 10.06: That all announcements of corporate decisions or corporate actions be made by either the chief executive officer or the chairperson of MPIC and, further, that corporate mastheads or letterheads be used exclusively for these announcements. (Page 20)

Recommendation No. 10.07: That government decisions and actions concerning the corporation or Autopac be announced by either the minister responsible for The Manitoba Public Insurance Corporation or the premier and, further, the governmental or ministerial letterheads and mastheads be used exclusively for these announcements. (Page 20)

Recommendation No. 10.08: That MPIC assess opportunities to improve the level of its communications by long term planning related to the corporate mission statement, and by forthright disclosure of its current position and future prospects. (Page 20)

Recommendation No. 10.09: That the corporation reassess its non-safety promotion budget and, further that the communication department's budget for non-safety promotion be increased to cover the expense of an improved promotion program. (Page 23)

Recommendation No. 10.10: That the corporation evaluate the needs of the public for information on Autopac and MPIC in terms of:

- Individual segments of the community that are either served by the corporation or contribute to its work.
- The particular wishes or needs of each such segment for specific information about Autopac or the corporation.
- The best means by which the required information may be conveyed to particular segments of the public.

And, further, that this information be used as the basis of a long-term plan to improve communications between the corporation and the public. (Page 24)

Recommendation No. 10.11: That the corporation develop a communications plan for its safety promotion to provide consistency, continuity and strong corporate identification. (Page 25)

Recommendation No. 10.12: That the corporation hold meetings with representatives of the agent's association, or directly with the agents, concerning the corporation's participation in community activities and opportunities to create greater awareness of MPIC and Autopac. (Page 27)

Recommendation No. 10.13: That the corporation develop a program to keep elected officials informed about Autopac developments in accordance with guidelines approved by the minister responsible for The Manitoba Public Insurance Corporation. (Page 28)

Recommendation No. 10.14: That the corporation assess all opportunities to improve its internal communications that were identified during the employee attitude studies conducted by the human resources department. (Page 29)

Recommendation No. 10.15: That the corporation record the subject of customer inquiries or complaints and, further, that the corporation publish summaries of this information annually. (Page 30)

Recommendation No. 10.16: That the corporation expand its annual report to provide more detailed information on its plans, operations, organization and loss experience. (Page 31)

Recommendation No. 10.17: That the corporation provide information on Autopac services by developing a set of brochures on the following individual subjects:

- Autopac insurance for private motorists.
- Autopac insurance for operators of commercial vehicles.
- Autopac extension coverage.
- The Autopac fleet insurance program.
- Autopac driver's premiums, merit premium reductions and driver premium surcharges.

- Advice for vehicle damage claimants.

- Autopac bodily injury claims policies and procedures.

- The Autopac time payment plans.

- Autopac appeal procedures.

And, further, that the corporation assess opportunities to distribute widely these brochures in mailings to policyholders, through Autopac agents and through Autopac claims centres. (Page 34)

Recommendation No. 10.18: That the corporation evaluate the experience of the Insurance Corporation of British Columbia in securing the assistance of its agents in improving public awareness of ICBC and its automobile insurance program and, further, that MPIC consider a similar role for Autopac agents. (Page 36)

Recommendation No. 10.19: That funding for safety promotion by MPIC be assured through the enactment of a statutory budget allocation equal to a fixed percentage of the corporation's premium income. Further, that the corporation, with the cooperation and financial participation of government departments with a specific interest in traffic safety, enhance its safety promotions. These should include new initiatives in safety research, evaluation of various driver training methods and the development, with the cooperation of the department of education, of complusory school curriculums. (Page 42)

XIII. POSITION PAPER NO. 11: CORPORATE PLANNING

The commission examined needs for The Manitoba Public Insurance Corporation to plan for the development and supply of its automobile insurance. The commission also assessed the corporation's current planning capabilities.

A. MAIN CONCLUSIONS

- The corporation is currently operating without an approved strategic plan.

- The strategic plan prepared by the corporation in 1985 was not updated and has not served as the intended foundation of the corporation's operating plans in subsequent years.

- The corporation has developed an internal proposal to introduce corporate planning including the development of a comprehensive strategic plan.

- The proposals of the MPIC management committee conform to contemporary corporate planning practice, and if implemented, should produce appropriate long-term and annual plans.

- The corporation has recognized the potential benefit of formal planning techniques, such as its claims forecasting model, and appears committed to developing additional planning tools.

- To achieve satisfactory results, much continued senior management support and internal work is needed to create, for the first time, working examples of required planning reports.

- The experience of the Insurance Corporation of British Columbia (ICBC) is evidence that government-held insurance organizations can adopt, and benefit from, the strategic planning practices employed by privately-owned corporations.

- The corporation needs to subject its losses to more detailed analysis, in terms of its loss experience, individual rating groups, territories and use codes.
- There is a significant opportunity to carry out research on the causes of accidents in Manitoba and, in turn, assess the potential benefits of enhancing or redesigning traffic safety programs.

B. RECOMMENDATIONS

Recommendation 11.01: That the corporation adopt formal and regular product planning as the broad context for ratemaking and, further, that Autopac product planning incorporate:

- Assessments of changing market conditions including emerging or diminishing demands by policyholders for automobile insurance.
- Evaluation of prevailing types and limits of Autopac coverage in terms of market demand and market trends.
- Review of the adequacy of the packaging or handling of various types and levels of coverage within basic and extension Autopac.
- Evaluation of the current marketing and distribution of Autopac and opportunities to make improvements.
- Confirmation or revision of guidelines for setting prices within individual rate groups in accordance with predetermined and long-term financial objectives.
- Development and refinement of proposals to maintain or modify current rates. (Page 9)

Recommendation No. 11.02: That priority be assigned to analysis of loss experience in individual rating classes to supplement the current practice. (Page 15)

Recommendation 11.03: That the corporation examine carefully how ICBC develops and maintains corporate plans and further, that MPIC consider how it might adopt the approach and methods employed by ICBC, either in their current form or modified for MPIC's specific needs. (Page 22)

Recommendation No. 11.04: That an independent organization, either within government or outside, be assigned responsibility for consolidating information on road and vehicle hazards and making at least annual reports to the public of significant findings. So that this accident research authority would be highly credible, it should be conducted by an organization with no direct responsibility for regulating vehicle operation, enforcing traffic laws or insuring drivers and vehicle owners. The Road Safety Unit at the University of Manitoba may be in the best position to assume this role. (Page 24)

Recommendation No. 11.05: That the corporation take the following steps in the order in which they are presented:

- Board of directors review of the statement of corporate mission and objectives prepared by the management committee.

- Board of directors review and endorsation of a strategic planning process such as the one proposed by the management committee.

- Clarification of the corporation's responsibilities for lines of insurance other than automobile insurance and assessment of the organizational implications of any changes in corporate purpose.

- Development of a strategic plan to be completed in the spring of 1989, with board approval.

- Recording of the strategic initiatives identified by management as follows:

  - Using the existing rate classifications, determination of the rates that would be required to offset the corporations's expected losses.

  - Development of insurance pricing guidelines for adjusting premiums to reflect, to a greater extent, the corporation's insurance costs.

  - Preparation of a rate proposal for the 1989 insurance year.

- Development of rating systems which encourage motorists to conduct themselves in a manner or use equipment which is likely to eliminate or reduce losses arising from automobile accidents, based upon in-depth studies of the causes of accidents in Manitoba.

- Design of a new system for classifying insurance risks for ratemaking and other management purposes, based partly on the results of the preceding study.

- Completion of a comprehensive study of organizational requirements to support the planning, development and supply of automobile insurance products.

- Preparation of a strategic information resources management plan covering business systems and associated technological needs. (Page 25)

Recommendation No. 11.06: That the corporation concentrate on the undertakings proposed in Recommendation 11.05 before commencing on the more detailed projects that are part of the initiatives proposed by the management committee for 1988. (Page 27)

APPENDIX A

GLOSSARY OF INSURANCE TERMS

GLOSSARY OF TERMS USED IN THE COMMISSION'S REPORT

Adjuster: One who investigates and arranges settlement of claims.

All-Perils Coverage: Insurance which provides the policy-holder with compensation for damages arising from any peril, subject to specified limitations. Under "all perils", MPIC includes collision and upset (roll-over) coverage as well as comprehensive (fire, vandalism, theft) coverage.

Benefit: The amount paid out under an insurance contract. MPIC provides benefits in three broad classes:

- Accident Benefits: Payments made, regardless of fault, on behalf of an injured or dead policy-holder. There are five types: weekly wage loss (indemnity) benefits, death benefits, funeral benefits, compensation for medical expenses and impairment benefits for permanent disfigurement or dismemberment.

- All-Perils Benefits: Coverage for any direct and accidental loss or damage to an insured vehicle, arising out of any peril whatsoever including collision, upset, fire, vandalism, and theft. It is broken down, particularly in terms of different deductibles, among collision and upset coverage and comprehensive coverage.

- Public Liability and Property Damage: Coverage for the portion of the insured's liability which is imposed by law in respect of bodily injuries or death to another person, or loss or damage to property of others, as a result of the negligent driving of the insured.

Betterment: Where the insured receives something better than he or she had before a loss.

Claim: An insured's right to receive one or more benefits under a policy. If two insureds are involved, for example a two-car accident, there could be two claims.

Claimant: An individual who makes a claim against a policy-holder or a policy-holder who makes a claim against MPIC.

Claims Expense: Expenses associated with the settlement of claims, including claim centre operations, lawyer's fees, medical fees, etc.

Claims (or losses) Incurred: Claims actually paid plus an estimate of the amount MPIC will have to pay in the future to satisfy a claim fully. Future payments for a bodily injury claim in particular must be estimated, for settlement may take months or years and then may involve making weekly payments until the death of the claimant.

Classification: Use of various classes of automobiles and related perils in calculating insurance premium rates, and could involve drawing distinctions among territories, uses and age or size of the vehicle.

- class -- the groups of vehicles that result from the application of a classification system.

- category -- used interchangeably with class.

  - rating group -- assignment to one of 14 rating groups in vehicles according to base factory price.

Cover: Each of the benefits to which a claimant is entitled in an accident. For example, a one-car accident may involve a collision benefit and a whiplash benefit (i.e. two covers).

Estimator: One who inspects physical damage to a vehicle and reports to an adjuster.

Expenses: These are of four types:

- Claims expenses (eg. costs of operating claims centres).

- Administrative expenses (computer systems, rent, depreciation, head office salaries, pensions, etc.).

- Commissions.

- Premium taxes (payable by MPIC, like other insurance companies operating in Manitoba, to the provincial government).

Incurred But Not Reported (IBNR): Losses which have happened but have not yet been reported to MPIC. This also refers to reserves set aside for IBNR.

Insurance or Insurance Product Line: Used to indicate the nature or the amount of the business in a particular area. For instance, MPIC provides both an automobile line and a general line.

Insurance Year: March 1 to February 28.

Loss Reserves: An amount held for claims that have not yet been settled, including IBNR claims. The reserve is an estimate of what will be required to pay those claims.

No-Fault Insurance: Coverage for bodily injury or death resulting from an automobile accident, regardless of fault. In Manitoba, coverage for vehicle damage over and above the deductible is dealt with on a no-fault basis.

Parties: Typically three parties are identified in a claim:

- First Party: the insured.

- Second Party: MPIC or other insurer.

- Third Party: a party suffering harm as a consequence of first party negligence.

Premium: Money paid by the insured in exchange for the protection offered.

Premiums Written: The total premium income received on policies processed in a year.

Premiums Earned: The portion of the premiums written for which the insurer's obligation has terminated. For example, if on one policy the annual premium is $600 which the company charges and receives on March 1, the earned premium on September 1 is $300.

Premiums Unearned: The portion of the premium pertaining to the remainder of the contract period. Thus, half-way through the year, half the premium remains unearned in the sense that, if the policy were cancelled, half the premium would be returned.

Property Casualty: That insurance which provides coverage for property loss or damage, for bodily injuries caused by an accident and for sickness. Life and health insurance plans are not included.

Pure Premium: The exact amount of premium required to pay for claims incurred and claims expenses without any allowance for administration, taxes, commissions and non-premium income.

Ratios: A number of financial ratios are used in the insurance industry, including:

- Loss Ratio: Claims or losses incurred plus claims expenses expressed as a percentage of earned premiums.
- Expense Ratio: General expenses, including administra- tive expenses, taxes and commissions, expressed as a percentage of earned premiums.
- Combined Ratio: The sum of the above two ratios, sometimes called an underwriting ratio.

Reinsurance Assumed: An agreement whereby, for the premium negotiated, one company (or a group of companies) agrees to pay all or part of the claims which may potentially be incurred by another company.

Reinsurance Ceded: An agreement whereby, for the premium negotiated, one company assigns all or part of its potential obligation for the payment of claims to another company.

Replacement Cost: The full cost of repairs or replacement of damaged property without any reduction for depreciation.

Subrogation: If by law an insurance company is bound to pay a claim on behalf of its insured, though he or she is not entitled to be indemnified because of the breach of a policy condition (i.e. driving while impaired), the company acquires the right to stand in the shoes of the victim to whom the claim was paid in order to sue the insured and recover from him or her the amount paid to the victim.

Third-Party Liability: Coverage which protects a policy-holder from any claims which may be made against her or him by a third party.

Treaty of Reinsurance: The reinsurance agreement.

Underwriting: The calculation of the premium to be charged respecting a risk for which a company is asked to provide, or offers to provide insurance.

Underwriting Profit (Loss): Profit (or loss) on the insurance business, not taking investment income into account.

Unearned Premiums: see Premiums Unearned.

Upset: Coverage pertaining to rolling a vehicle over.

Validation Year: March 1 to February 28 (also Insurance Year).

APPENDIX B

SUBMISSIONS TO THE COMMISSION

LIST OF PERSONS WHO MADE ORAL AND WRITTEN SUBMISSIONS

LIST OF ORAL SUBMISSIONS

NAME	HEARING LOCATION
ANDERSON, Doug	Thompson
ANDERSON, Kris	Winnipeg
ARDORER, Henry	Portage la Prairie
ARNASON, Mayor Ted	Gimli
ASHTON, Mrs. Steve (Heddi)	Thompson
AUTOGLASS REPAIR ASSOCIATON - GLASS, James - JAMES, Bob - LOEWEN, Albert (Loewen Bodyshop, Steinbach) - MCCRAKEN, Brian	Winnipeg
AUTOMOTIVE DISMANTLERS & RECYCLERS - GILMAN, Alex	Winnipeg
AUTOMOTIVE TRADES ASSOCIATION - DYCK, Randy - SEGAL, Joel - WITTENBERG, Eric	Winnipeg
AYERS, Willie	Dauphin

BARACOS, Mr. & Mrs.	Winnipeg
BEAUDET, Roger	Winnipeg
BEGG, Phil	Thompson
BERNSTROM, Ron	The Pas
BLACKIE, John	Winnipeg
BLANCHARD, Bill	Winnipeg
BRANDON POLICE COMMISSION - HUNT-BINKLEY, Anna	Brandon
BRYANT, Steve	Winnipeg
BUDGET RENT-A-CAR - HAUKAAS, Murray	The Pas
BURRONESS, John	Winnipeg
CARTON, Ken	Brandon
CHAMPAGNE, Andre	Thompson
CHAMPAGNE, Paul	Winnipeg
CHUBBIE, Dorothy	Brandon
CITY OF BRANDON POLICE DEPARTMENT	Brandon
COLIN, Ken	Thompson
COMTE, Jerry	Winnipeg
CONSUMERS' ASSOCIATION OF CANADA (Manitoba) - BARKER, Wendy - HILLER, Jenny	Winnipeg
COXWELL, Gary	Dauphin
CRANE, Tony	Winnipeg
CRIDDLE, Paul	Brandon
CRUMBS, Dave	Russell

DEANS, Kerry	Winnipeg
DEGROOT, Robert	Winnipeg
DRYSDALE, Gordon	Winnipeg
DRYSDALE, Ron	Winnipeg
EMRICK, Mark	Brandon
EULETT, Scott	Thompson
EVAN, John	Winnipeg
EWANIKIW, Gene	Russell
FELSTED, John	Gimli
FERGUSON, John	Winnipeg
FRIESEN, Dave	The Pas
FRIESEN, Ray	Morden
FRYER, Alvin	Binscarth
GAGNON, Rene	Thompson
GEBLER, Gerry	Morden
GERVAIS, Fern	Portage la Prairie
GILFIX, Marty	Winnipeg
GILLAS, Damon	Russell
GOLDWING ROAD RIDERS ASSOCIATION - NEWFELD, John - SAUNDERS, Elliott - STARINK, Norm	Winnipeg
GRANT, David	Winnipeg
GRAY, Scott	The Pas
GURBA, Kim	The Pas

HAINSWORTH, Ross (CFB Winnipeg)	Winnipeg
HAMELUCK, Mike	Winnipeg
HARTRAY, Jim	Morden
HICKWAY, Conrad	Thompson
HIEBERT, Ed	St. Francois-Xavier
HIGHWAY METRO AND TOWING - STRATYCHUK, Emily	Winnipeg
HOLF, Allen	Lac du Bonnet
HUNTER, Bob	Winnipeg
INDEPENDENT AUTOBODY COLLISION REPAIR SHOP - CARAHLYO, Henry - GORIN, Harvey	Winnipeg
INSURANCE AGENTS' ASSOCIATION - GELBERT, Brent - MCKELVEY, Bob - SPALDING, Jack	Winnipeg
JACKSON, Ralph	Portage la Prairie
JAMES-WARD, Bill (Defensive Driving Person)	Beausejour
JAMES-WARD, Diane (Defensive Driving Person)	Beausejour
JIM	Winnipeg
JOHNSON, Brian	The Pas
JOHNSON, Jack	The Pas

KANE, Bunny	Thompson
KARACHUK, Ludwig	Thompson
KEMP, Angela	Winnipeg
KEMP, Harold	Thompson
KEN'S CUSTOM PAINT - KOLYSNIK, Ken	Winnipeg
KERN, Jerry	Winnipeg
KOWALCHUK, Mr.	Dauphin
KRUEGER, Herbert	Thompson
KUCHARCZYK, Walter	Winnipeg
LAVIGNE, Joe	Winnipeg
LEE, Helen	Portage la Prairie
LESSO, S.	Winnipeg
LOCKHART, Jim	Winnipeg
LOVE, Keith	Dauphin
LOVE, Larry	Dauphin
MANITOBA ANTIQUE AND CLASSIC AUTO CLUB - HARRIS, Jack - SPARKS, Lillian - SPARKS, Norm	Winnipeg
MANITOBA BAR ASSOCIATION - GORLICK, Barry	Winnipeg
MANITOBA GOVERNMENT EMPLOYEES ASSOCIATION - BERGEN, George - ERB, Ray - OLFERT, Peter	Winnipeg
MANITOBA HIGHWAYS & TRANSPORTATION, MOTOR VEHICLE LICENSING - COYLE, D.F.	Winnipeg

MANITOBA MOTOR DEALERS ASSOCIATION	Winnipeg
- ALCOCK, Terry (Garden Gate)	
- CAREY, Jim (Frontier Management Group)	
MANITOBA MOTOR LEAGUE	Winnipeg
- KOVITS, Frank	
- POYSER, Alice	
MANITOBA MOTOR CYCLE CLUB	Winnipeg
- CHARLETON, Don	
MANITOBA SAFETY COUNCIL	Winnipeg
- HERBERT, Denys	
- HIGGINS, Tom	
- PRESCOTT, Peter	
MANITOBA TRUCKING ASSOCIATION	Winnipeg
- FRIESEN, George (Gardewine North)	
- HARRIS, Al	
- LAKEN, Larry (Atomic Trucking)	
- OAKES, Art (Kleysen Transport)	
- YACKEL, Clarence	
MANITOBA TRUCKING ASSOCIATION - TOWING DIVISION	Winnipeg
- HARRIS, Al	
- KNAPP, Al	
- ROSCOE, Nick	
MARSHALL, D.S.	Ninga
MARSHALL, Keith	Ninga
MARTIN, Ross	Brandon
McCLAVERTY, Mayor Bob	Thicket Portage
McDONALD AUTOBODY	Winnipeg
- YVON, Alan	
McGREGOR, Ray	Winnipeg
McLANE, Stewart	Dauphin
McMURRAY, Guy	Russell
McMURRAY, R.M.	Russell
MOIST, Lloyd	Winnipeg
MOORE, Eugenia	Brandon
MOORE, Ronald	Brandon
MUNROE TRANSPORT	The Pas
- MUNROE, Ian	

NIZNIK, Stewart	Winnipeg
O'DONOVAN, Ron	Winnipeg
O'MORROW, Lloyd A.	Winnipeg
OLD, Doreen	Winnipeg
THE PAS HANDI VAN - COREY, David	The Pas
PEOPLE IN EQUAL PARTICIPATION - DUCHARME, Theresa	Winnipeg
PERSSON, Don	Dauphin
PETERS, C.	Thompson
PRICE, Gordon	Winnipeg
PRICE, Ray	Winnipeg
REGUSH, Mike	Dauphin
RISK & INSURANCE MANAGEMENT SOCIETY (Manitoba) - THOMAS, Keith	Winnipeg
ROBERTON, Bryan	Winnipeg
ROWAT, Don	Russell
RUSSIN, Laurie	Gimli

SALAVICH, Frank	Russell
SIMARD, Gilles	Portage la Prairie
SMITH, Don	Winnipeg
SMITH, Gord	Winnipeg
SOBEL, Carol	Thompson
SOBERING, Don	Winnipeg
STAPLETON AUTOBODY - DESROCHERS, Arlene - DESROCHERS, Denis	Winnipeg
SUN, E.	Winnipeg
SUPROWICH, William	Lac du Bonnet
SYDORKO, John	Winnipeg
TAXICAB OWNERS' ASSOCIATION - JAQUET, Al (Duffy's Taxi) - KAPUSTA, Peter (Duffy's Taxi)	Winnipeg
THOMPSON BUS LINES - LITTLE, Wilf	Thompson
THORVALDSON, Ross	Winnipeg
TOCHER, Ed	Winnipeg
TORBERT, Don	Lac du Bonnet
TWIN MOTORS - HAUKAAS, Gordon	The Pas
UNFRIED, Mayor Bruce	The Pas
VIPOND, Rob	The Pas

WALDMAN, David	Winnipeg
WIEBE, Corny	Morden
WIEBE, Ron	Morden
WILDER, Fermie	Winnipeg
WINDSHIELD GLASS INSTALLED - SHURVELL, Garth	Brandon
WINNIPEG MOTORCYCLE DEALERS ASSOCIATION - CORBETT, J. David (Birchwood Honda) - GRAY, Robyn (Harley Davidson) - WOOD, David	Winnipeg
YORK, Jean	Winnipeg
ZEGARAC, Betty Ann	Brandon
ZLOTY, R.	Winnipeg

LIST OF WRITTEN SUBMISSIONS RECEIVED FROM ASSOCIATIONS

AL'S TOWING SERVICE LTD.
THE AUTOGLASS REPAIR ASSOCIATION
THE AUTOMOTIVE DISMANTLERS & RECYCLERS ASSOCIATION OF MANITOBA INC.
AUTOMOTIVE TRADES ASSOCIATION MANITOBA INC.
THE CANADIAN ALL-TERRAIN VEHICLE DISTRIBUTORS COUNCIL
CITY OF WINNIPEG POLICE DEPARTMENT
CONSUMERS ASSOCIATION OF CANADA (MANITOBA)
HI-WAY & METRO TOWING SERVICES
INSURANCE BROKERS' ASSOCIATION OF MANITOBA
JAMES MARKETING CORPORATION
MANITOBA BAR ASSOCIATION
MANITOBA CLASSIC & ANTIQUE AUTO CLUB
MANITOBA MOTORCYCLE CLUB
MANITOBA MOTOR DEALERS' ASSOCIATION
MANITOBA MOTOR LEAGUE
MANITOBA SAFETY COUNCIL
MANITOBA TRUCKING ASSOCIATION
THE MOTORCYCLE & MOPED INDUSTRY COUNCIL
N.D. TAYLOR LTD.
NOVA SCOTIA BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
THE RISK AND INSURANCE MANAGEMENT SOCIETY, INC.
RONDEX LTD.
ROYAL CANADIAN MOUNTED POLICE
SOBERING AUTO ELECTRIC LTD.
WINNIPEG MOTORCYCLE DEALERS ASSOCIATED INC.

LIST OF WRITTEN SUBMISSIONS RECEIVED FROM INDIVIDUALS

ATWELL, George
AUGER, Denis C.

BEANS, Nelson
BEHR, E.S.
BELL, Allan R.
BROTHERTON, M.

CARLSON, Paula

DASH, Marley S.
DESILETS, Arla
DRYSDALE, G.
DUNNING, C.

ENNS, Willy
EVAN, John A.

FELSTED, John
FILLMORE, W.P.
FONGER, D.R.

GRAHAM, B.
GREGG, Stephen William
GYLES, Judge H.

HARDY, Dave

IGNAT, F.

JACOBSON, B.

KLIPPENSTEIN, Stan

LAFFERTY, Diana
LANGFORD, W.L.
LETAIN, Peter J.
LOEPPKY, David

MASKIW, James H.
MCMILLAN, Jim
MONDOR, A.G.
MOORE, K.
MORRIS, Lila-Jean

NORBERG, R.W.

OLESKI, R.
O'MORROW, L.A.

RAMSAY, David B.N.
RICHMOND, Bev
RICHMOND, Ron R.
ROSE, A.J.
RUSSELL, J. Grant

SAURETTE, P. E.
SILVER, R. M.

TAPPER, R.L.
TOKER, E.S.
TOMLINSON, A.
TRATCH, Terry

VIPOND, R.J.

WALKER, D.
WIENS, Brad
WILDE, Jack
WILKINSON, P.
YOUNG, D.J.

APPENDIX C

PERSONS INTERVIEWED BY THE COMMISSION

LIST OF PERSONS INTERVIEWED

Mr. David Atkins
Insurance Industry Group
Coopers & Lybrand

Mr. Gary Barbour
Manager of Autopac Services
The Manitoba Public Insurance Corporation

Mr. J.W. Bardua
Vice-President, Claims
Insurance Corporation of British Columbia

Mr. Stephan R. Barg
President & Chief Executive Officer
Public Investments Corporation of Manitoba

Mr. J. Scott Broughton
Former Director & Secretary
The Manitoba Public Insurance Corporation

Mr. James S. Cormack
Manager, Underwriting
Insurance Corporation of British Columbia

Mr. D.F. Coyle
Registrar of Motor Vehicles
Division of Driver and Vehicle Licensing
Manitoba Highways and Transportation

Mr. John L. Doiron
Manager, Information Systems Development
The Manitoba Public Insurance Corporation

Mr. Henry Dribnenky
Vice-President Finance
The Manitoba Public Insurance Corporation

Mr. Eric Endicott
Policy Advisor
Department of Financial Institutions
Province of Ontario

Mr. Barry Galenzoski
Senior Vice-President
The Manitoba Public Insurance Corporation

Mr. Don Gaudry
Manager
Bodily Injury Claims
The Manitoba Public Insurance Corporation

Mr. Martyn Glassman
Former Secretary to The Committee Responsible for Reviewing Rent Regulation and Landlord and Tenants Legislation

Mr. Iain D. Grieve
Manager Communications
The Manitoba Public Insurance Corporation

Mr. John Hammett
Agency Coordinator
The Manitoba Public Insurance Corporation

Mr. James Harbun
President
Insurance Agents Association

Mr. Ray Healey
Partner
Thorne Ernst & Whinney

Mr. Byron Hindle
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APPENDIX E

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Volume

2

REPORT OF
THE AUTOPAC REVIEW COMMISSION

VOLUME II: BACKGROUND AND POSITION PAPERS

His Honour Judge Robert L. Kopstein
Provincial Court of Manitoba
Commissioner

Submitted to The Honourable Glen Cummings
Minister responsible for
The Manitoba Public Insurance Corporation

Winnipeg, Manitoba
1988

ERRATA

Vol. I Summary Bibliography	Page 11	#159 should read "Mr. Justice Coulter A. Osborne, Commissioner" and also be listed under his name.
Vol. II Position Paper No. 2 Bodily Injury	Page 8	2nd paragraph, 2nd line, should read Professor "Philip" Osborne, as well as footnote.
Bodily Injury	Page 86	Under Present, should read "Waiting period: 1 week"
Vol. II Position Paper No. 3 Ratemaking and Coverage	Page 106	Page incomplete. Replacement included.
Vol. II Position Paper No. 5 Repairs	Page 13	2nd line, delete $1.
Repairs	Page 14	3rd paragraph, 3rd line, should read "still seems to be an issue".
Repairs	Page 25	3rd paragraph, 4th line, should read "is acting unfairly".
Vol. II Position Paper No. 6 Claims	Page 4	Table 6.01, case #6, "less salvage" refers only to $2800.
Vol. II Position Paper No. 7 Financial Management	Page 48	Table 7.2 omitted. Replacement included.
Vol. II Position Paper No. 8 Human Resources	Page 21	9th line, should read "Position Paper No. 3".

- Motorcyclists are offered no time payment system; but to do so may be costly. MPIC should develop options and publicly consult interested parties.

- Autopac premiums for motorhomes appear to be unjustifiably high and, for higher priced motorhomes, rose by nearly 50 percent in 1988. An unheralded increase of this magnitude is unacceptable in any one year.

- Collision coverage should remain mandatory for the time being, because otherwise Autopac might lose its economies of scale which permit it to offer service throughout Manitoba. However, as noted above, deductibles at fixed gradations above $350, should be allowed as an option.

- Technological innovations in automotive manufacturing are causing unknown, but possibly profound, effects on vehicle repair costs. Autopac should cultivate the means to monitor these developments for Manitoba, as MPIC today can do no more than point to experiences elsewhere.

IX. RECOMMENDATIONS

Recommendation No. 3.01: That MPIC develop a consultation routine by December 31, 1989, which provides policyholders with the orderly opportunity to comment on rating proposals which affect them, prior to the implementation of the proposals. (Page 5)

Recommendation No. 3.02: That MPIC, under its current rating system, link the level of the basic driver charge to one or more specific bodily injury benefits, effective insurance year 1989 and remaining in effect until a pure no-fault benefit program or a new method of driver rating is introduced. (Page 16)

Recommendation No. 3.03: That, effective not later than insurance year 1992, MPIC replace its accident-surcharge system with a system of discounts and surcharges. In particular, that

AUTOPAC REVIEW COMISSION

TABLE 7.2: SAMPLE REPORT OF PROJECTED AUTOPAC PREMIUM SUFFICIENCY IN THOUSANDS OF DOLLARS

	ACTUAL			ACTUAL FOR SAME PERIOD IN PREVIOUS FISCAL YEAR	% CHANGE FROM PREVIOUS FISCAL YEAR	FORECAST		ACTUAL AND FORECAST FOR THIS FISCAL YEAR	ACTUAL FOR PREVIOUS FISCAL YEAR	% CHANGE FROM PREVIOUS FISCAL YEAR
	1 Nov 87 to 31 Jan 88	1 Feb 88 to 30 Apr 88	Fiscal Year to Date			1 May 88 to 31 Jul 88	1 Aug 88 to 31 Oct 88			
NET PREMIUMS EARNED										
Basic Vehicle Premiums	$57,700	$56,500	$114,200	$109,400	4.4%	$59,300	$61,000	$234,500	$226,100	3.7%
Drivers License Charges	$6,800	$6,600	$13,400	$12,800	4.7%	$6,900	$7,100	$27,400	$26,500	3.4%
Extension	$14,600	$14,300	$28,900	$27,700	4.3%	$15,100	$15,500	$59,500	$57,100	4.2%
	$79,100	$77,400	$156,500	$149,900	4.4%	$81,300	$83,600	$321,400	$309,700	3.8%
NET CLAIMS AND EXPENSES										
Vehicle Damage	$21,600	$31,100	$52,700	$56,000	-5.9%	$14,300	$19,100	$86,100	$90,700	-5.1%
Bodily Injury Benefits	$6,600	$7,300	$13,900	$13,100	6.1%	$3,300	$4,500	$21,700	$21,200	2.4%
Third Party Bodily Injury	$12,200	$13,500	$25,700	$24,200	6.2%	$6,200	$8,300	$40,200	$39,300	2.3%
Third Party Property	$57,200	$55,900	$113,100	$100,600	12.4%	$25,800	$34,500	$173,400	$163,100	6.3%
Comprehensive	$8,400	$9,300	$17,700	$16,800	5.4%	$4,300	$5,700	$27,700	$27,200	1.8%
	$93,800	$103,600	$197,400	$186,500	5.8%	$47,700	$63,800	$349,100	$302,200	15.5%
NON-CLAIMS EXPENSES										
Administration	$2,800	$2,800	$5,600	$5,400	3.7%	$2,900	$2,800	$11,300	$10,900	3.7%
Commissions	$4,700	$4,600	$9,300	$9,000	3.3%	$4,900	$5,000	$19,200	$18,600	3.2%
Premium Tax	$2,800	$2,700	$5,500	$5,200	5.8%	$2,800	$2,900	$11,200	$10,800	3.7%
	$10,300	$10,100	$20,400	$19,600	4.1%	$10,600	$10,700	$41,700	$40,300	3.5%
UNDERWRITING PROFIT (LOSS)	($25,000)	($36,300)	($61,300)	($56,200)	9.1%	$23,000	$9,100	($29,200)	($32,000)	-11.0%
Plus: Investment Income	$7,800	$13,400	$21,200	$19,700	7.6%	$10,800	$9,300	$41,300	$38,400	7.6%
NET PROFIT (LOSS)	($17,200)	($22,900)	($40,100)	($36,500)	9.9%	$33,800	$18,400	$12,100	$5,600	116.1%

Note: The amounts shown are not actual. The amounts shown as forecasts have not been projected by MPIC. All values are illustrative.

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AUTOPAC REVIEW COMMISSION

INTRODUCTION TO
THE MANITOBA PUBLIC INSURANCE CORPORATION
AND VEHICLE INSURANCE

Submitted to: Honourable Glen Cummings

Submitted by: Judge Robert Kopstein

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INTRODUCTION TO THE MANITOBA PUBLIC INSURANCE CORPORATION AND VEHICLE INSURANCE

I. INTRODUCTION

This position paper presents an overview of:

- Terminology used to describe insurance matters.
- The insurance industry in Canada.
- The Manitoba Public Insurance Corporation (MPIC).
- MPIC's services and operations.
- Autopac ratemaking and financing.

The information provided will be helpful to many readers who seek an understanding of insurance concepts.

II. VEHICLE INSURANCE

A. THE LANGUAGE OF INSURANCE

MPIC, along with more than 100 property and casualty insurance companies operating in Canada, uses a number of specialized terms. Some of the more important respecting MPIC are listed in this glossary. Other definitions appear as necessary throughout the position papers.

Adjuster: One who investigates and arranges settlement of claims.

All-Perils Coverage: Insurance which provides the policy-holder with compensation for damages arising from any peril, subject to specified limitations. Under "all perils", MPIC includes collision and upset (roll-over) coverage as well as comprehensive (fire, vandalism, theft) coverage.

Benefit: The amount paid out under an insurance contract. MPIC provides benefits in three broad classes:

- Accident Benefits: Payments made, regardless of fault, on behalf of an injured or dead policy-holder. There are five types: weekly wage loss (indemnity) benefits, death benefits, funeral benefits, compensation for medical expenses and impairment benefits for permanent disfigurement or dismemberment.

- All-Perils Benefits: Coverage for any direct and accidental loss or damage to an insured vehicle, arising out of any peril whatsoever including collision, upset, fire, vandalism, and theft. It is broken down, particularly in terms of different deductibles, among collision and upset coverage and comprehensive coverage.

- Public Liability and Property Damage: Coverage for the portion of the insured's liability which is imposed by law in respect of bodily injuries or death to another person, or loss or damage to property of others, as a result of the negligent driving of the insured.

Betterment: Where the insured receives something better than he or she had before a loss.

Claim: An insured's right to receive one or more benefits under a policy. If two insureds are involved, for example a two-car accident, there could be two claims.

Claimant: An individual who makes a claim against a policy-holder or a policy-holder who makes a claim against MPIC.

Claims Expense: Expenses associated with the settlement of claims, including claim centre operations, lawyer's fees, medical fees, etc.

Claims (or losses) Incurred: Claims actually paid plus an estimate of the amount MPIC will have to pay in the future to satisfy a claim fully. Future payments for a bodily injury claim in particular must be estimated, for settlement may take months or years and then may involve making weekly payments until the death of the claimant.

Classification: Use of various classes of automobiles and related perils in calculating insurance premium rates, and could involve drawing distinctions among territories, uses and age or size of the vehicle.

- class -- the groups of vehicles that result from the application of a classification system.
- category -- used interchangeably with class.

- rating group -- assignment to one of 14 rating groups in vehicles according to base factory price.

Cover: Each of the benefits to which a claimant is entitled in an accident. For example, a one-car accident may involve a collision benefit and a whiplash benefit (i.e. two covers).

Estimator: One who inspects physical damage to a vehicle and reports to an adjuster.

Expenses: These are of four types:

- Claims expenses (eg. costs of operating claims centres).
- Administrative expenses (computer systems, rent, depreciation, head office salaries, pensions, etc.).
- Commissions.
- Premium taxes (payable by MPIC, like other insurance companies operating in Manitoba, to the provincial government).

Incurred But Not Reported (IBNR): Losses which have happened but have not yet been reported to MPIC. This also refers to reserves set aside for IBNR.

Insurance or Insurance Product Line: Used to indicate the nature or the amount of the business in a particular area. For instance, MPIC provides both an automobile line and a general line.

Insurance Year: March 1 to February 28.

Loss Reserves: An amount held for claims that have not yet been settled, including IBNR claims. The reserve is an estimate of what will be required to pay those claims.

No-Fault Insurance: Coverage for bodily injury or death resulting from an automobile accident, regardless of fault. In Manitoba, coverage for vehicle damage over and above the deductible is dealt with on a no-fault basis.

Parties: Typically three parties are identified in a claim:

- First Party: the insured.
- Second Party: MPIC or other insurer.
- Third Party: a party suffering harm as a consequence of first party negligence.

Premium: Money paid by the insured in exchange for the protection offered.

Premiums Written: The total premium income received on policies processed in a year.

Premiums Earned: The portion of the premiums written for which the insurer's obligation has terminated. For example, if on one policy the annual premium is $600 which the company charges and receives on March 1, the earned premium on September 1 is $300.

Premiums Unearned: The portion of the premium pertaining to the remainder of the contract period. Thus, half-way through the year, half the premium remains unearned in the sense that, if the policy were cancelled, half the premium would be returned.

Property Casualty: That insurance which provides coverage for property loss or damage, for bodily injuries caused by an accident and for sickness. Life and health insurance plans are not included.

Pure Premium: The exact amount of premium required to pay for claims incurred and claims expenses without any allowance for administration, taxes, commissions and non-premium income.

Ratios: A number of financial ratios are used in the insurance industry, including:

- Loss Ratio: Claims or losses incurred plus claims expenses expressed as a percentage of earned premiums.
- Expense Ratio: General expenses, including administrative expenses, taxes and commissions, expressed as a percentage of earned premiums.
- Combined Ratio: The sum of the above two ratios, sometimes called an underwriting ratio.

Reinsurance Assumed: An agreement whereby, for the premium negotiated, one company (or a group of companies) agrees to pay all or part of the claims which may potentially be incurred by another company.

Reinsurance Ceded: An agreement whereby, for the premium negotiated, one company assigns all or part of its potential obligation for the payment of claims to another company.

Replacement Cost: The full cost of repairs or replacement of damaged property without any reduction for depreciation.

Subrogation: If by law an insurance company is bound to pay a claim on behalf of its insured, though he or she is not entitled to be indemnified because of the breach of a policy condition (i.e. driving while impaired), the company acquires the right to stand in the shoes of the victim to whom the claim was paid in order to sue the insured and recover from him or her the amount paid to the victim.

Third-Party Liability: Coverage which protects a policy-holder from any claims which may be made against her or him by a third party.

Treaty of Reinsurance: The reinsurance agreement.

Underwriting: The calculation of the premium to be charged respecting a risk for which a company is asked to provide, or offers to provide insurance.

Underwriting Profit (Loss): Profit (or loss) on the insurance business, not taking investment income into account.

Unearned Premiums: see Premiums Unearned.

Upset: Coverage pertaining to rolling a vehicle over.

Validation Year: March 1 to February 28 (also Insurance Year).

B. HOW INSURANCE IS FINANCED

1. Setting Premiums

In Manitoba, premiums are set by regulation, balancing such insurance principles as:

- Pooling, whereby the premiums and risks are pooled within each established vehicle classification. Pooling has the effect of evening out chance occurrences of accidents among a sufficiently large group of vehicles that a premium rate can be set for that group.

- Driver experience, whereby a driver assigned initially to a given group may have a surcharge imposed or discount allowed if his or her claims experience warrants it.

- Overall fairness, whereby premiums are the same for the same kinds of drivers using vehicles in the same ways. Drivers who use different kinds of vehicles or have different accident records should have premiums set through a consistent application of established rules which are demonstratively objective.

- A level system, whereby premiums across various classifications do not vary in large degree, and where annual changes remain fairly equal across all classes, for reasons of simplicity.

To forecast the aggregate premium requirement for a future year, the corporation attempts to ensure that premiums and other revenues will cover administration as well as all the losses or claims to be incurred during that year. At MPIC, projections are prepared in October of all the property damage claims that are likely to be reported and settled during the year beginning March 1 next and also the property damage claims that are likely to occur but not be reported or settled until a later year. The same type of forecast is also made for bodily injury claims; this forecast is more difficult because these claims may not be finally settled for years.

Once the aggregate premium allowing MPIC to attain its corporate financial targets is established, specific premium rates are assigned to various classifications of vehicles. This can be done partly by examining past loss ratios.

The surcharging structure for poor drivers and the rebate system for good drivers must also be decided. In 1987 there were two kinds of surcharges. The first, which generated approximately $1.5 million in revenue during the 1986/87 fiscal year, was imposed following two or more at-fault accidents; the second, which produced about $3.5 million in 1986/87, related to accumulated demerit points associated with conviction for offences under The Highway Traffic Act or Criminal Code. For the first time in 1988, MPIC offered about a five percent premium rebate for vehicle owners with merit points; this cost MPIC about $7 million.

2. Investment Income

Because much of the money that MPIC pays to honour claims incurred will be paid out in future years, funds are set aside and invested to meet these obligations. The interest from these investments is an important source of revenue, used to offset premium increases. Interest is also generated on premiums the corporation has received in February/March but has yet to earn fully by providing a complete year of coverage. Investment income amounted to about $40 million in 1987/88.

3. Costs: Incurring Claims and Expenses

A claim is formally incurred when a file is opened and an estimate is made of the present and future payments that will be required. A number of expenses are associated with the file including internal adjusting costs, doctor's fees, legal fees, medical advisory fees, chiropractic expenses, as well as funeral benefits, impairment benefits and the like.

In any given year, a number of incurred claims are not reported by the end of that year. Based on past experience, their value is estimated and is included in that year's accounts as claims incurred but not reported (IBNR). Associated with these estimates of future claims are estimates of future expenses to service those claims.

The actual value of claims incurred is reduced by reinsurance in effect. Where there is a potential for large losses, MPIC will reinsure with other insurers. Thus, if a major loss should occur -- such as claims worth many millions of dollars following a serious bus accident -- then MPIC's liability is capped.

4. Overall Financial Balance

When premiums earned (but not investment income) are compared to the total of claims incurred and administrative expenses, an underwriting profit or loss is said to result. If there is an underwriting loss, it can be made up by including investment income, which actually could produce a net operating surplus for the company. Accumulated surpluses over time are considered "unappropriated reserves" -- that is, reserves not explicitly assigned to cover future claims -- and these monies may be designated as reserves against catastrophe or for rate stabilization, as MPIC does.

The overall financial balance at MPIC in 1987 is presented in Figure B1. It was a year of losses, as everyone knows. More interesting is that payment of claims is the overwhelming expenditure, while premiums and investments constitute the bulk of revenue.

III. THE INSURANCE INDUSTRY IN CANADA

The insurance industry in Canada, in particular the automobile insurance industry, has experienced rapid increases in claims over the past few years. MPIC's experience is not exceptional.

Comparison between average rate increases at MPIC and other automobile insurers in Canada[1] is illustrated in Figure B2. The rates for Canada appear in Facts of the General Insurance Industry in Canada, 15th Edition, prepared by the Insurance Bureau of Canada. IBC remarks that:

> "Total automobile insurance premiums have jumped more than 25 percent over the past two years as insurance companies attempted to keep rates in line with increased claims. Part of the increase is to meet growing liability costs, although repairs to vehicles continue to constitute the major part of claim costs."

This upward pressure on claims, arising from vehicle repairs, is illustrated in Figure B3 for Canada and Manitoba. Comparison of the actual repair costs in this chart are less meaningful than comparison of the annual percentage changes, since IBC and MPIC classify repair costs differently. The Figure shows that the upward pressure on average automobile repair costs in Manitoba has closely paralleled that for the rest of Canada.

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[1] The Insurance Bureau of Canada (IBC) excludes MPIC, Saskatchewan Government Insurance and the Insurance Corporation of British Columbia from its figures.

As a consequence of cost increases of this magnitude, the general financial health of the industry declined in 1984 and 1985, as portrayed by rising combined ratios. The combined ratios, illustrated in Figure B4, represent the total of claims incurred, claims expenses and administrative expenses as a percentage of net premiums earned. In other words, a combined ratio above 100 means that earned premiums alone are not covering costs.

Regarding these figures, IBC observes:

> "When underwriting losses are severe, as in 1984 and 1985, companies tend to tighten their underwriting requirements and the result is a shortage in the availability of insurance."

Thus, as Figure B4 shows, the industry -- having taken remedial action -- witnessed a decline in combined ratios in 1986. MPIC's combined ratio also rose, as the industry's did, although later in 1986 and 1987. By its mandate, MPIC is not in a position to selectively refuse insurance to Manitobans as a means of rectifying this situation. Instead premiums were raised in 1987 and 1988.

IV. INTRODUCTION TO MPIC

A. STATUTORY ARRANGEMENTS

The Automobile Insurance Act, proclaimed September 21, 1970, provided for the establishment of The Manitoba Public Insurance Corporation. It came into existence September 29, 1970 and insurance operations commenced November 1, 1971. Since then, the act was amended substantially only once -- in 1975, when provision was made for the corporation to offer general lines of insurance. At that time the title of the legislation became The Manitoba Public Insurance Act.

The regulations made under the act are extensive. They set out premiums and benefits. They are amended and upgraded annually, usually in December through Order-in-Council. A number of modifications was also required for the 1986 validation year to eliminate provisions, such as higher rates for young drivers, that were considered discriminatory under The Canadian Charter of Rights and Freedoms.

The act provides for the corporation to have a board of nine directors appointed by cabinet. The government appoints also the general manager or chief executive officer. The corporation reports through the responsible minister to the legislature, and must file an annual report which is referred to the legislature's Public Utilities and Natural Resources Committee.

MPIC's coverages are defined by regulation and fall into three broad areas -- no-fault accident benefits, all-perils, and third party liability. These statutory provisions are similar to those offered through the automobile insurance programs of Saskatchewan Government Insurance (established in May, 1945) and, to a lesser degree, the Insurance Corporation of British Columbia (started in April, 1973). (Quebec's Regie de l'assurance automobile provides bodily injury coverage on a monopoly basis for that province's drivers but does not offer coverage against vehicle or property damage.) There are no formal relationships among these sister corporations, which are unique in North America. None of the three western corporations has been permitted to join the Insurance Bureau of Canada, which collects consistent national statistics from privately-owned insurance companies and provides other services to them. IBC does use Quebec's property damage statistics.

In 1979, a government-commissioned report on MPIC, prepared by Michael C. Burns as chairman and two commissioners, recommended, amongst other matters, that government consider converting MPIC, by statute, to a mutual insurance company. This principal recommendation was not acted upon, although a number of the specific recommendations were gradually adopted by the government or the corporation.

B. SCALE OF MPIC BUSINESS

With assets of $300 million, annual revenues of the same magnitude and a staff in excess of 1,000, MPIC plays an important role in the economic life of the province. It ranks 20th among Manitoba companies in annual sales (Great West Life is first), and it ranks ninth in the number of persons it employs (Manitoba Telephone System is first and Manitoba Hydro second). Measured by premiums, MPIC is in the top 20 of Canadian insurers active in the property and casualty field. Among automobile insurers in Canada, it is within the top six. MPIC's annual revenue places it 19th among provincial Crown corporations.

MPIC's assets, revenues and staff may be compared roughly to those of the other public plans, SGI, ICBC and to a lesser extent Quebec's regie de l'assurance automobile. As Figure B5 shows, the size of MPIC's assets, revenue and staff do not appear disproportionate to the Manitoba population.

V. MPIC SERVICES AND OPERATIONS

MPIC is a monopoly supplier of basic vehicle insurance in Manitoba. Although it competes with private insurers in offering extension vehicle insurance such as buy-ups of public liability coverage, its service and agency network allow it to capture the overwhelming bulk of this market too. In 1971, MPIC replaced dozens of private auto insurers which together had received premiums of $35.7 million to partially insure 363,000 vehicles. In 1972 MPIC wrote about $39 million in premiums to insure close to 500,000 vehicles for a full range of coverages.

Since its inception, MPIC's mandate has been to provide all Manitobans with low cost, high quality automobile insurance on a stable, efficient and equitable basis, consistent with long-term financial self-sufficiency.

In pursuing this objective, the corporation provides services in two broad areas -- the selling of policies, and the servicing of claims.

A. SELLING POLICIES

Autopac insurance is sold by about 380 independent agents, of whom about 170 operate in the Winnipeg area. Autopac agents must hold a general insurance licence. By agreement between the agents and MPIC, control is exercised over the number and location of agencies, so that all areas of the province are served.

Agents are permitted to register and insure most vehicles. Only 8,000 or so vehicles, such as taxis, must be insured by the division of driver and vehicle licensing (DDVL) of the Manitoba department of highways, although policyholders may opt to insure any vehicle at DDVL.

MPIC does not provide a policy contract to its policy holders. As is the case in Saskatchewan, British Columbia and Quebec, the terms of the insuring agreement are specified instead by the legislation and regulations. In other provinces, the insurance industry uses a "standard" policy form.[2]

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[2] This policy form has been criticized by John Newcombe in The Standard Automobile Policy Annotated, in which he states:

> "To put it bluntly, most people merely buy insurance to comply with the law, concerning themselves principally with the size of the premium rather than with the protection purchased. The term 'standard', as used with automobile policies, is misleading. The policies of the various provinces are different in small, but sometimes very significant, ways. The only thing they are truly 'standard' in is in being extremely difficult for laymen to understand...."

The standard policy is also criticized by Mr. Justice Coulter Osborne in his Report of Inquiry into Motor Vehicle Accident Compensation in Ontario.

MPIC provides three major benefits:

- Accident benefits on a no-fault basis such as death benefits and benefits for disfigurement or dismemberment.
- All-perils coverage for collision and upset (i.e. rolling a vehicle), fire, vandalism and theft.
- Third party protection from public liability and property damage claims.

Unlike ICBC, MPIC does not show Manitobans the premiums attached to each of these coverages.

MPIC provides for a limited number of variations to its basic premium. For passenger cars, a policy-holder may buy-up the public liability coverage from \$200,000 to \$2 million, with allowed gradations, and may buy-down the deductible from \$350 to \$250 or \$150. Other options are not explicitly available, but a policy-holder may request insurance coverage under general insurance -- for example, for a 20-year-old car kept in mint condition but not classified as antique, or for a special paint job on the side of a van.

To simplify administration in Manitoba, vehicle registration -- traditionally a function of the division of driver and vehicle licensing (DDVL) -- and the purchase or renewal of insurance are carried out simultaneously; that is, the regisration fee is collected along with the insurance premium. It should also be noted that the driver's licence, administered through DDVL, contains an insurance-related fee as well as the general annual driver licence fee. Thus, MPIC and DDVL are collecting money for one another -- DDVL is collecting an insurance fee which it remits to MPIC, while MPIC is collecting a vehicle registration fee which it transmits to DDVL.

B. SERVICING CLAIMS

The corporation services claims through 16 centres province-wide. Five of the centres, along with the commercial claims centre at the Plessis Road compound, are in Winnipeg. Access to these centres is available by Dial-a-Claim service, or on a first-come first-served basis. A claims centre for bodily injuries, staffed by specially-trained adjusters, has been established at 330 Graham Avenue in Winnipeg. Elsewhere, itinerant adjusters process claims. This system enables vehicle damage claims to be considered within one to four days, depending on the fluctuations in demand (for instance, heavy demands may develop after weekends or bad weather).

An estimator assesses vehicle damage at a centre and informs an adjuster who is empowered to negotiate a settlement. The settlement, based on the estimate, is then forwarded to, or taken by a claimant to, a body shop of his or her choice. The shop is required to complete the work specified within the estimator's report unless hidden damage is uncovered. In that case, a re-estimate would be initiated. Billable labour rates and shop charges are set in negotiations with the repair industry, and listed in policy/procedure manuals.

For claims involving bodily injury, a special adjuster negotiates a settlement, if possible, taking into account the opinions of a claimant's physician and other medical doctors. Accident benefits may be paid along with additional payments for pain and suffering, lost income and so on. Where no settlement can be negotiated, litigation may be commenced.

C. OPERATIONS

Since 1983, growth in the corporation's operations has been significant, as summarized in Table B1. The number of registered and insured vehicles grew by 16 percent from 1983 to 1987, compared to an increase of 36 percent in the number of claims. Earned premiums grew by 30 percent, while claims costs shot up 77 percent.

Since 1983 the corporation's staff members have grown by 22 percent (compared to the increase of 36 percent in the number of claims). Figure B6 shows MPIC staffing as of May 1, 1988. The average salary of unionized employees was about $26,600 in 1988 while the average of managers was $47,200.

With respect to registered and insured vehicles, Figure B7 charts, in greater detail, the gradual but persistent growth in their number since 1983. This growth has evidently been a factor in increasing number of claims made under various covers over the past five years. (See Figure B8.) From the data presented in the Figure, it is clear that the number of claims and covers has not only grown in total, but the growth has been consistent across all the main types of benefits or claims. In addition, Figure B9 shows that average costs per claim have also grown consistently.

Imposed upon these upward trends are year-to-year fluctuations in claim frequencies and costs that make it impossible for MPIC, like other insurance companies, to predict exactly what its financial situation will be. For example, a 1½ percent overestimate of premiums and a 1½ percent underestimate of claims together would lead to a $10 million loss at MPIC. This observation should be borne in mind when interpreting Figure B10 which displays the variations in profits and losses at MPIC over the past five years. Even against the history of fluctuation in profits and losses, 1987 was an exceptional year.

TABLE B1

AUTOPAC REVIEW COMMISSION

MPIC: Summary Statistics 1983 - 1988

	INSURANCE STATISTICS				STAFFING NUMBERS		
YEAR	Number of Vehicles Insured (000s)	Number of Covers / Incidents (000s)	Premiums Earned ($000's)	Claims Costs(2) ($000's)	Number of Unionized Employees	Number of Managers and Other Non-Union	Total
1988	n/a	n/a	n/a	n/a	962 (1)	124 (1)	1086
1987	877	282	$237,500	$306,300	965 (1)	116 (1)	1081
1983	758	208	$182,100	$173,500	784 (1)	104 (1)	888
% change 88/83	---	---	---	---	23%	19%	22%
% change 87/83	16%	36%	30%	77%	23%	12%	22%

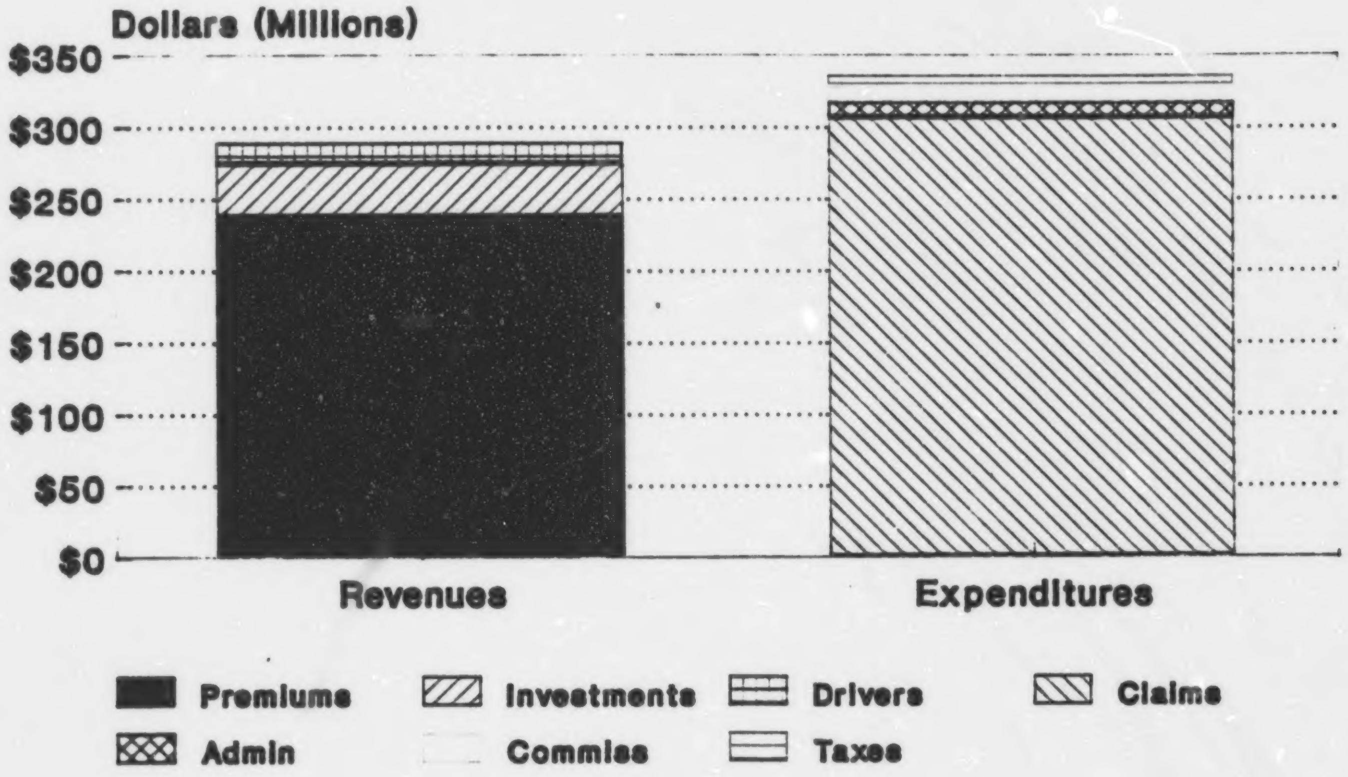
Source: MPIC
Note: (1) as of May 1
(2) claims incurred and claims expenses

Background B
FR006/blc

FIGURE B1

AUTOPAC REVIEW COMMISSION

Revenue and Claims/Expense Analysis
Fiscal Year 1986/87

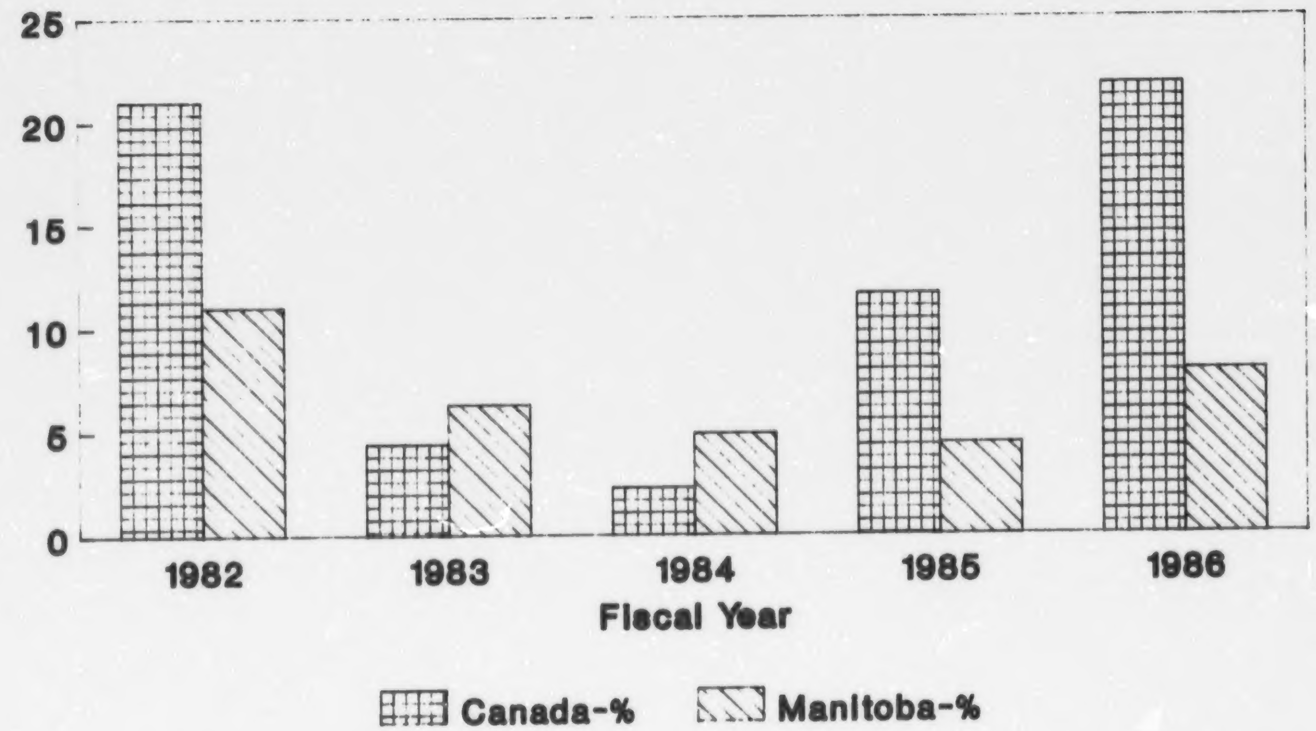


Source: MPIC

FIGURE B2

AUTOPAC REVIEW COMMISSION

Premiums Written-Canada & Manitoba
Annual Percent Change, 1982-86



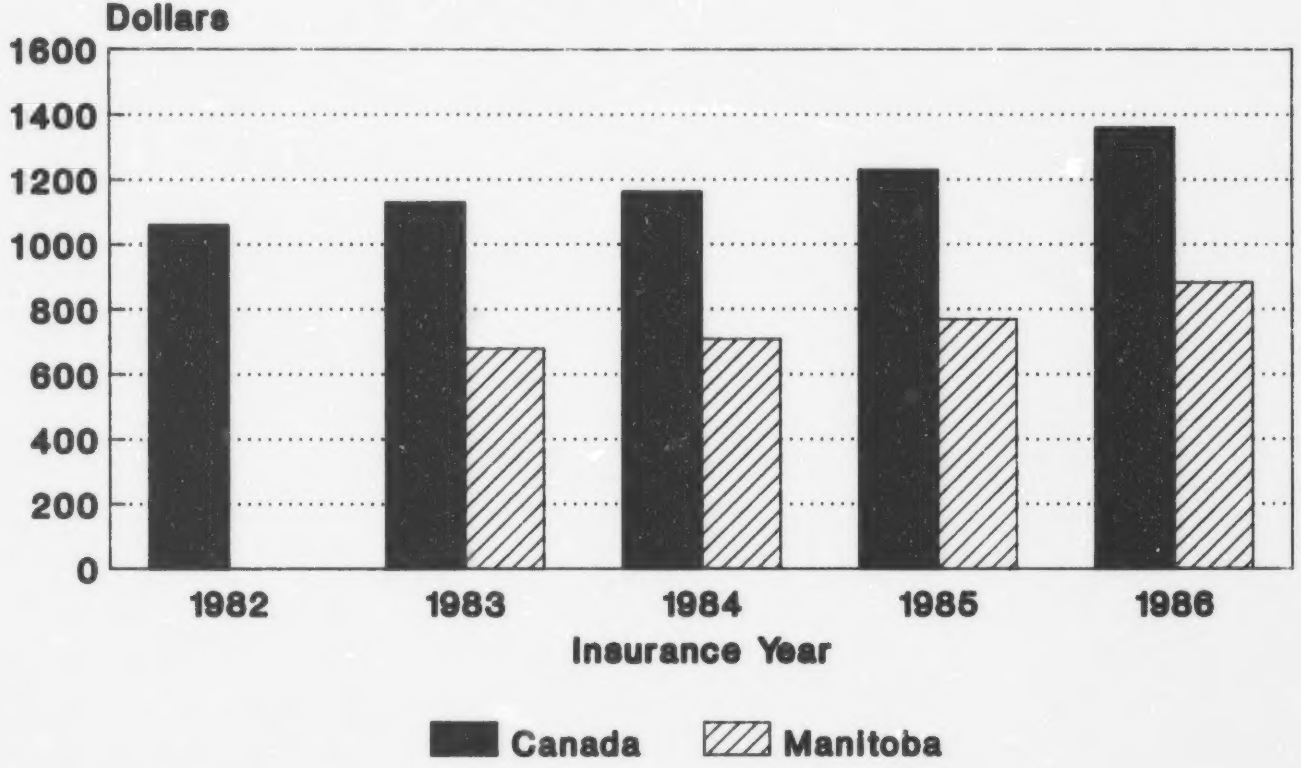
Source: MPIC & IBC("Facts 15 Ed")

FIGURE B3

AUTOPAC REVIEW COMMISSION

Motor Vehicle Repair Costs

Average Claim Cost $100 Deductible

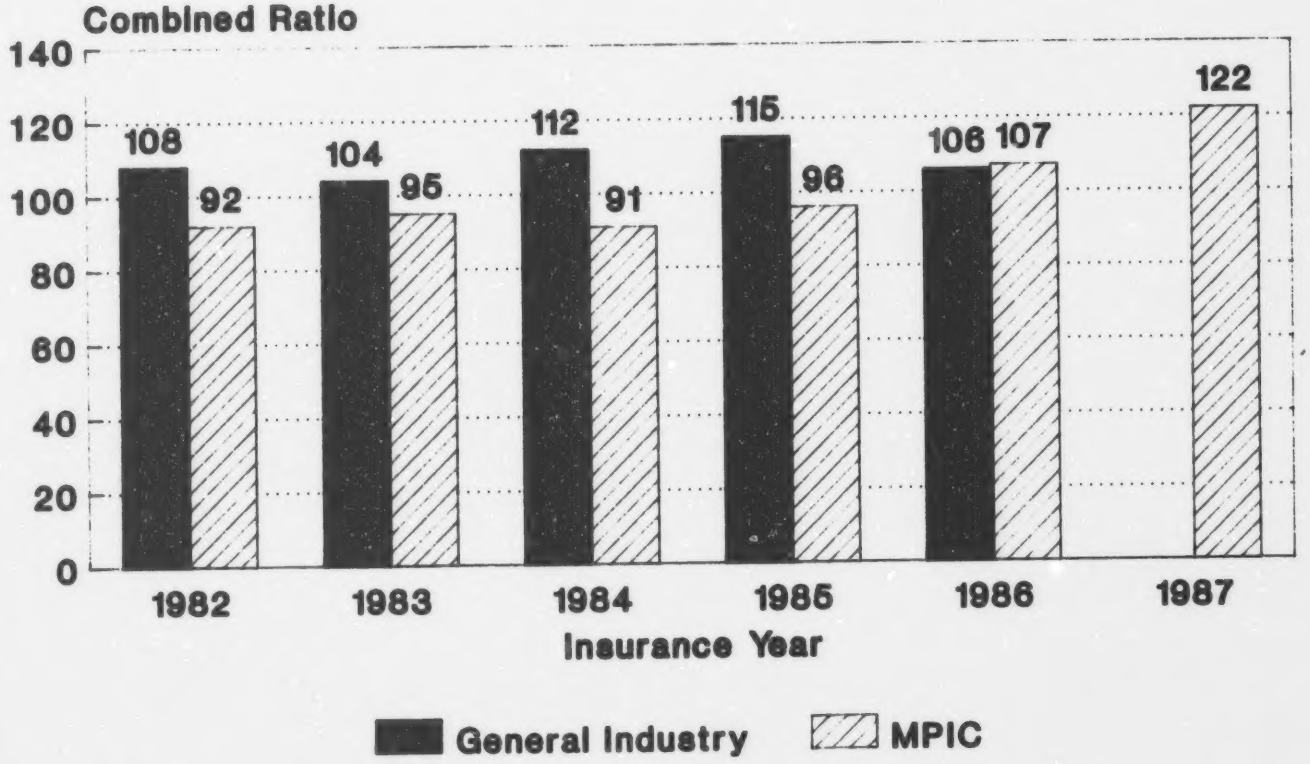


Source: MPIC & IBC ("Facts 15th Ed")

FIGURE B4

AUTOPAC REVIEW COMMISSION

General Financial Results-Combined Ratio
General Insurance Industry & MPIC

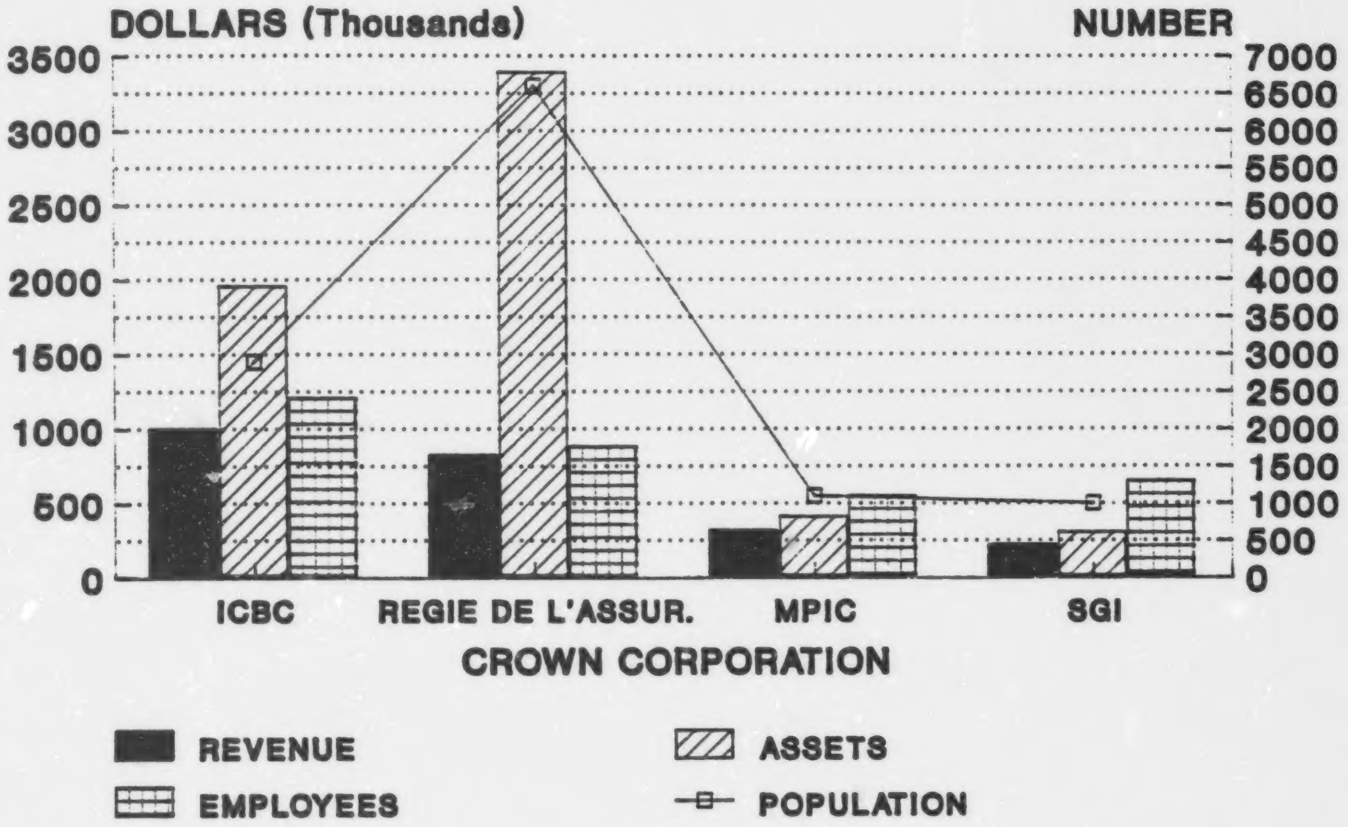


Source:MPIC & IBC ("Facts, 15th Ed")

FIGURE B5

PROVINCIAL CROWN CORPORATIONS

REVENUE, ASSETS & EMPLOYEES

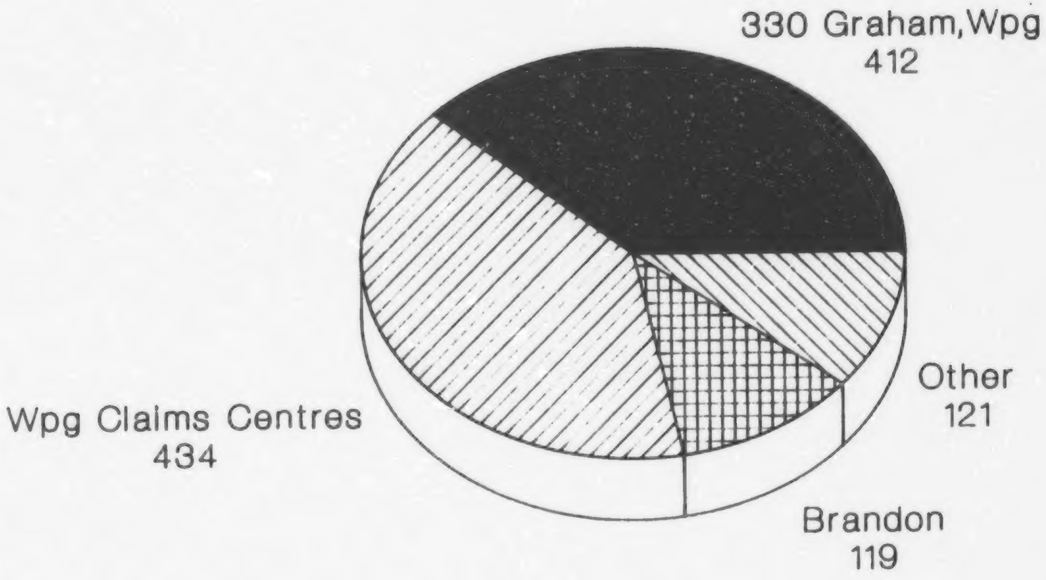


SOURCE: FINANCIAL POST SURVEY

FIGURE B6

AUTOPAC REVIEW COMMISSION

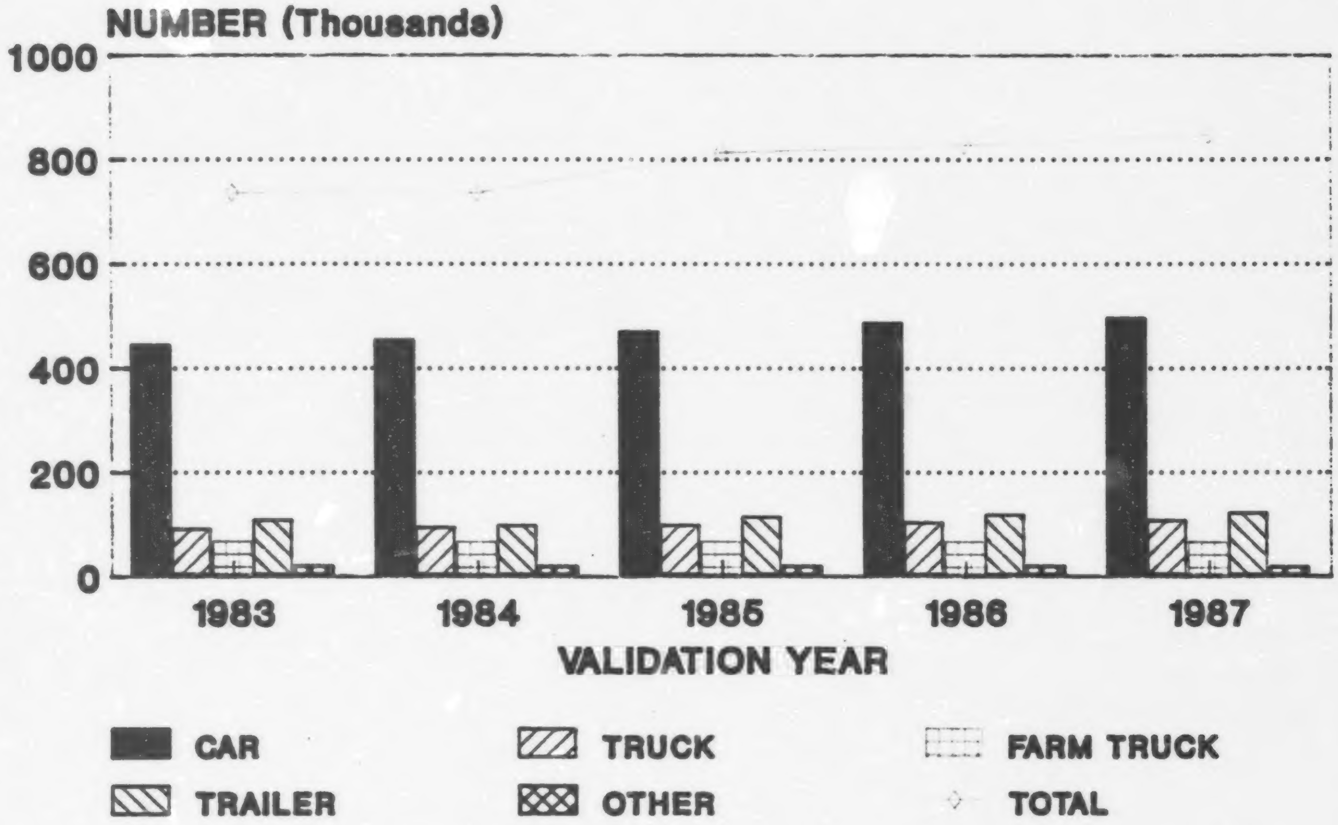
MPIC Employee Locations
Number of Employees May 1 ,1988



Source: MPIC

FIGURE B7

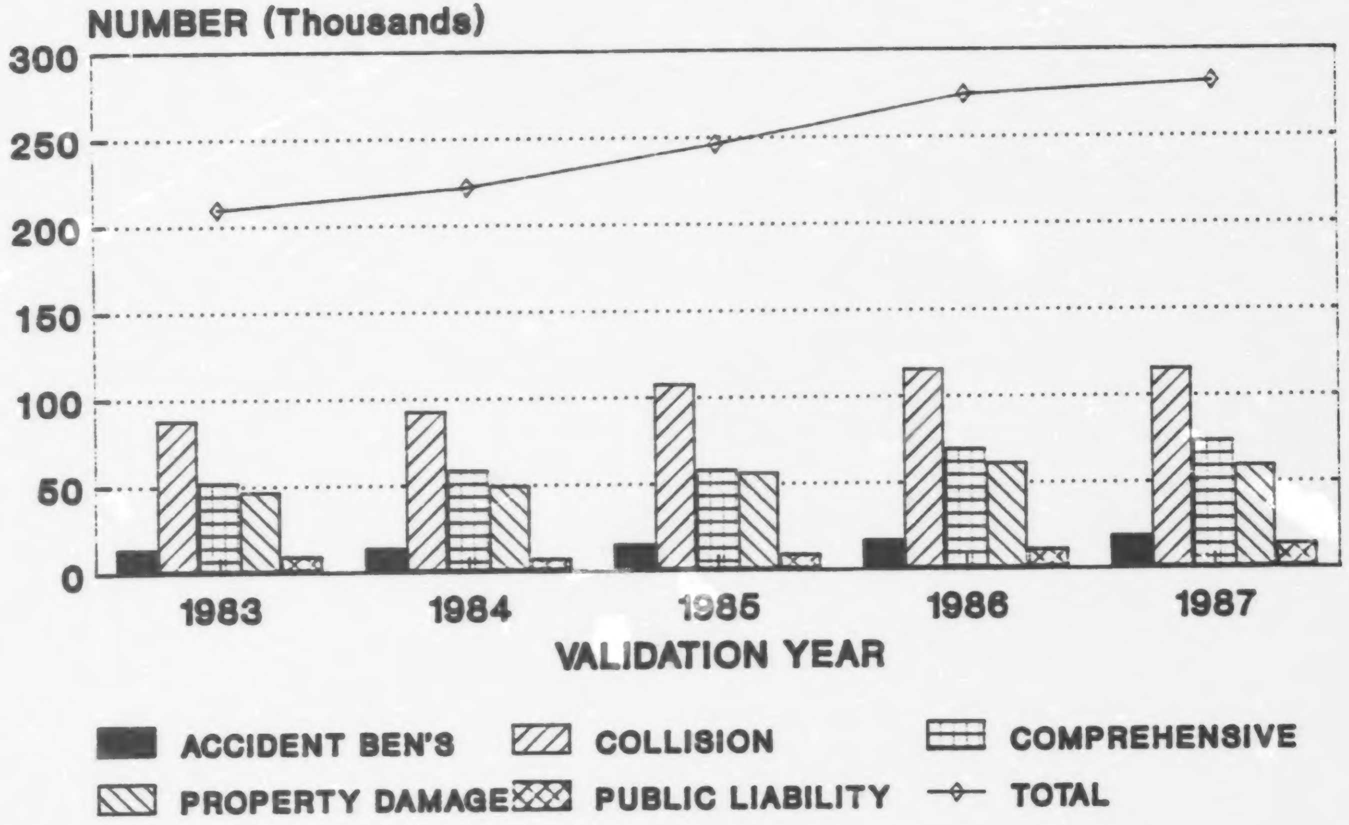
MVB VEHICLE REGISTRATIONS
BY CLASS OF VEHICLE



SOURCE: MPIC:A13H700-5

FIGURE B8

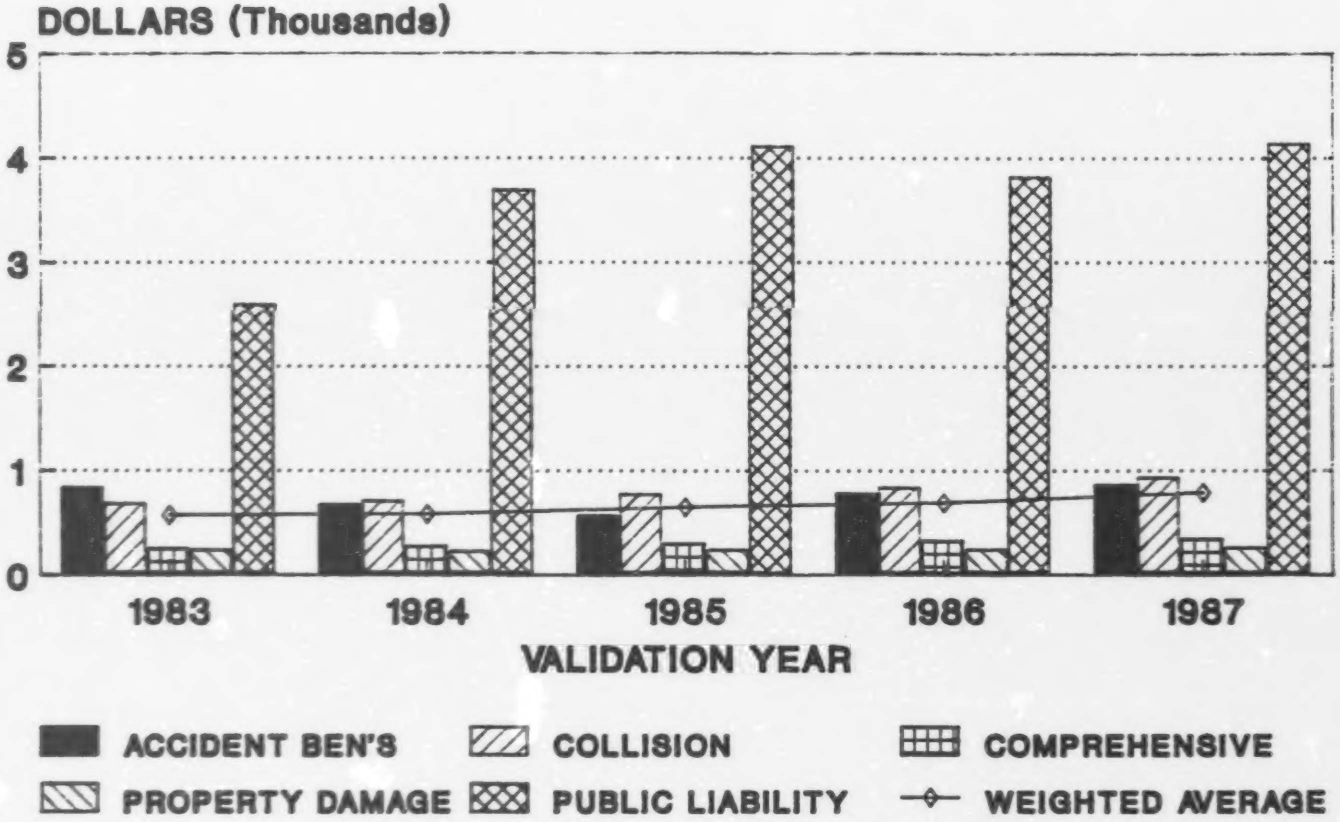
BASIC COVERS/INCIDENTS
FOR THE PERIOD 1983-1987



SOURCE: MPIC/THORNE ERNST & WHINNEY

FIGURE 9

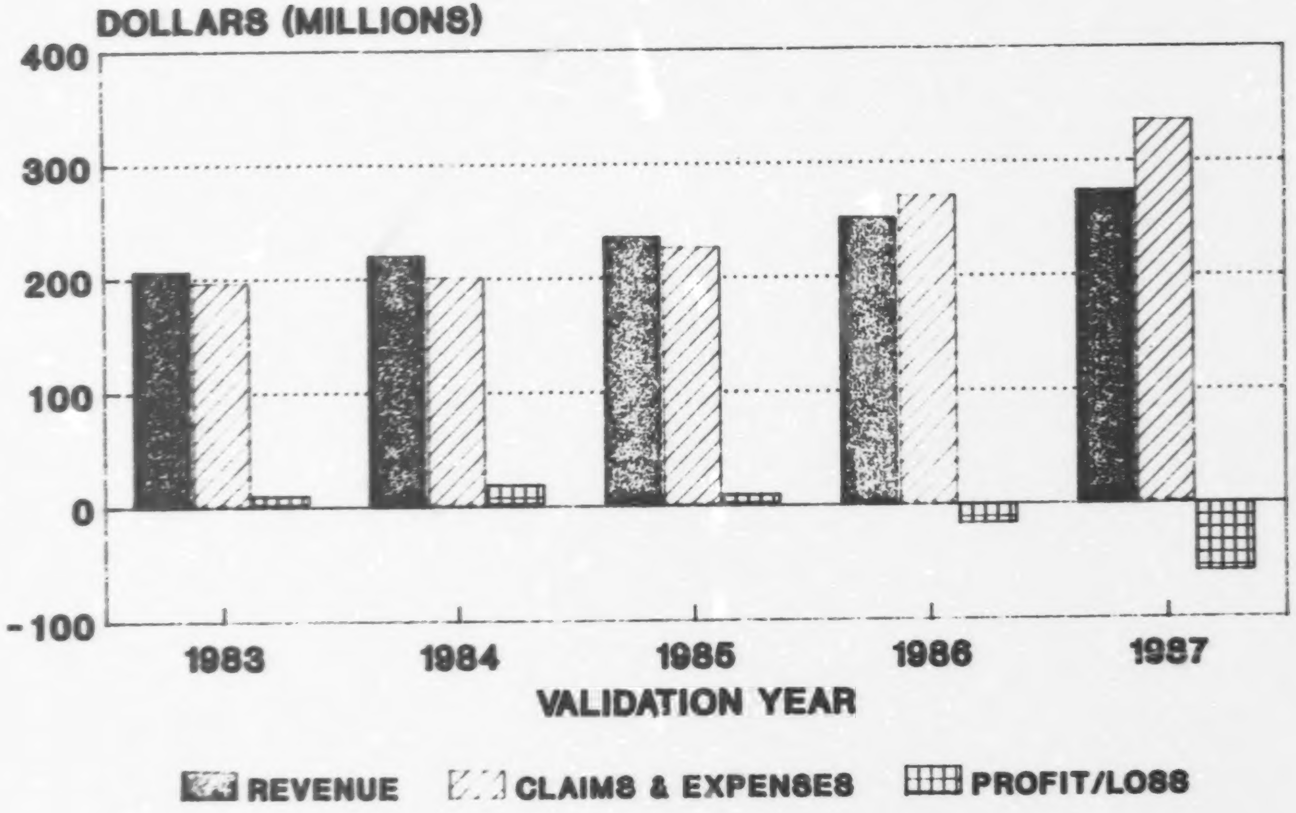
AVERAGE COST PER CLAIM
FOR BASIC INSURANCE



SOURCE: MPIC/THORNE ERNST & WHINNEY

FIGURE B10

STATEMENT OF OPERATIONS
PROFIT & LOSS



SOURCE: ANNUAL REPORTS OF MPIC

AUTOPAC REVIEW COMMISSION

THE PUBLIC CONCERN

Submitted to: Honourable Glen Cummings

Submitted by: Judge Robert Kopstein

AUTOPAC REVIEW COMMISSION
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THE PUBLIC CONCERN

The commission regarded "the public" as all those persons, groups and organizations who have a stake in Autopac.

The commission convened public meetings in Brandon, Dauphin, Gimli, Lac du Bonnet, Morden, Portage la Prairie, Russell, The Pas, Thompson and Winnipeg. The meeting in Lac du Bonnet attracted only one person. The meetings at all other locations were attended by groups relative to the populations of the communities ranging from approximately ten to 60 persons. For the commission, the public meetings were productive and useful. Every person who indicated a wish to speak was accorded that opportunity. I questioned many in order to obtain more details of their complaints or concerns, or to explore, more fully, their ideas and suggestions.

I personally responded to the content of many letters received by the commission. One letter which I received near the beginning of the review, told me, bluntly, that the commission would accomplish nothing and was a waste of money. All the other letters and verbal presentations were useful in helping me to identify the problems and to focus upon the development of recommendations concerning them. Both before and during the course of the review I was assisted, as well, by the unsolicited but welcome advice of editorial writers in the various newspapers. Without the meetings and the letters, it would have been impossible to know or to anticipate the multitude of concerns.

Some of the suggestions I received related to concerns which were outside the scope of my mandate, such as the use of front licence plates and matters which pertain to law enforcement.

The following is a description of the various concerns voiced by members of the public. Many of the concerns are dealt with at greater length in the commission's various position papers which follow. For those topics reviewed by position papers, the following description contains references to the position papers in which they are reviewed. Some specific concerns are not examined in any of the position papers. Those will be addressed, as far as is possible, in this description of the public concern.

I. ACCOUNTABILITY

People felt deceived and betrayed by a perception that facts relating to MPIC's financial condition over the past few years had been withheld from them. They blamed the sharp rate increase in 1988 premiums upon unwarranted governmental interference aimed at keeping the rates artificially low, in preceding years, for political advantage. Media coverage of insurance rates in other jurisdictions provided a better perspective, however, from which to view the MPIC increases. It is significant, I think, that none of those who addressed the commission argued that the rates should not have been increased. Virtually in unison, they were upset by the shock of sudden, large increase.

Arising from that feeling, a multitude of questions were raised and assertions voiced as to the business competence of MPIC officials, as to where the responsibility lies between MPIC and the government, and as to the safeguards which might be established the better to assure sound business decisions. I believe that I do not overstate the case when I say that the overwhelming public sentiment judged the government harshly for its perceived political interference in the operations of the corporation.

At several of the meetings when this issue was raised, I questioned people as to the reality of expecting government to remain distant or uninvolved in a government business, the success or failure of which was politically sensitive. In response, the majority of those people acknowledged that the government could not divorce itself from MPIC. They were resentful, nevertheless, because of their belief that the rates were used for political manipulation.

On the issue of accountability, I attempt in Position Paper No. 1 to analyze the structure of the relationship between the government and the corporation, and I make recommendations to clarify and to strengthen the responsibility and accountability of each.

II. CURRENT RATING PRACTICES

(See Position Paper No. 3)

Ratemaking is the term applied to the process whereby an insurance company identifies different categories of risk in order to fix premiums for each category. Manitoba's rating categories as follows:

1. Description of Rating Factors

a. Territories: There are four territories. Territory 1 is Winnipeg. Territory 2 is the balance of the province with the exception of that area north of the 53rd parallel of latitude. Territories 3 and 4 are located in the north of the 53rd parallel.

b. Declared Vehicle Use: There are many classifications of declared vehicle use, some of the most common being passenger vehicles which may be classified for use as "preferred", "all purpose" or "business", as well as other more specific uses, such as "taxi".

c. Vehicle Type: Again there are many classifications of vehicles. Passenger cars are classified by the make, model and the year of manufacture. Motorcycles are classified by the year of manufacture and the size of the engine. Certain trucks are classified, in part, by gross weight.

d. Driver's Record

i. Demerit Points

This factor is based directly upon individual driver experience, though not upon loss experience. A person acquires demerit points on his or her driver's licence for highway traffic convictions. Additional premiums are charged for demerit points over a threshold number, presently five. Added to the driver's licence fee, a surcharge is calculated upon the basis of those points. While demerit points do not, necessarily, reflect actual loss experience to the corporation, there is a study in another province which strongly suggests that people with high conviction rates are, as well, accident prone.

ii. Merit Points

This is a rating category added, for the first time, in 1988. For the driver with no demerit points on his record, a merit point may be earned for each two-year period that he or she is not convicted of any highway traffic offense and is not involved in any at-fault accident. Each merit point will entitle the driver to a reduction, presently $5, on the premium payable with his or her driver's licence fee. In addition, any number of merit points will entitle the driver to a reduction in the premium payable on the registration of his or her vehicle, presently about a 10 percent reduction. The benefit of merit points applied to vehicle insurance, however, is restricted to only a few vehicle use categories.

iii. Accident Surcharges

Surcharges are added to the driver's licence on the basis of a driver's responsibility for "at-fault" accidents. More than one "at-fault" accident in a surcharge period, presently one year, will result in a surcharge. This rating category is directly related to the corporation's loss experience with that driver.

2. The Public View of Territory Rating

At the public meetings there was criticism of the territory rating system for the vicinity surrounding Winnipeg and for the north of the province. Territory 1, Winnipeg, is the most expensive rating territory. Territory 2, being most of rural Manitoba below the 53rd parallel, but including the City of Brandon, is the least expensive rating territory. The rates charged for Territories 3 and 4 are close to those in Winnipeg.

At the meetings and in the letters I received there was evidence of a widespread belief that many people who live in Territory 2, on the outskirts of Winnipeg, commute to Winnipeg for work and drive in Winnipeg almost as often as Winnipeg residents themselves. Some people think those residents of Territory 2 receive an unfair advantage.

People who reside in northern Manitoba believed that the substantially higher premiums they pay in comparison to motorists in other parts of Manitoba, excluding Winnipeg, are unfair. They argued that they are being penalized, not because they are poorer drivers or less careful, on average, than drivers in other parts of the province, but because of conditions over which they have no control such as harsher winters, poorer roads and distance from the main centres.

The mayor of the town of Thicket Portage advised that his remote community is accessible to the outside world by road only two months during the year. Thicket Portage boasts some two miles of road and seven vehicles. The owners of those vehicles must pay the same insurance rates, however, as the residents of Thompson, one of Manitoba's largest communities. The people of Thicket Portage, according to the mayor, think that there is something amiss in rating equally the risk of loss in Thicket Portage and that of Thompson. I understand that MPIC justifies its rates in Thicket Portage on the basis that it must pay the costs of shipping damaged vehicles by flat car to and from Thompson, the nearest location of a body shop. The mayor says that, in fact, the residents of Thicket Portage have never sent a car to Thompson by flat car. Given the problems inherent in lifting an inoperable vehicle onto a flat bed, he says that most people tend to get along as best they can without having their vehicles repaired.

One gentleman complained that he owned a vehicle which was used only at his beach cottage in Territory 2 and that the vehicle remained at that location twelve months of the year. His principal residence, however, is in Winnipeg and he is therefore required to pay the Territory 1 premium, instead of the lower premium for Territory 2. He thought that the rigidity of the system in this regard is unfair. In my opinion, he is correct. This issue is not addressed in the position papers which follow.

Recommendation A.01: That the corporation establish, within its territory rating categories, a classification which allows the owner of a vehicle to register it in the territory of its principal use rather than in the territory of the owner's principal residence.

3. Farm Trucks

Several people across the province opposed the "farm plate" classification for insurance pricing. It was felt that the lower premiums for farm trucks constituted an unwarranted gift which could not be justified in terms of insurance risk or loss experience.

4. Absence of Use Rating for Leased Vehicles

There were questions as to why leased vehicles are rated by a use code unrelated to use, such as preferred, all purpose or business.

5. Excessive Flat Rating

Vehicle owners, especially motorcycle owners, complained of the rating of vehicles of disparate vintage and value within the same class. Motorcycles, for instance, are rated solely upon two criteria: the year of manufacture -- not specific to a particular year, but within a range of several years, -- and cubic displacement of the engine. Those factors, it was argued, are now too broadly defined to be useful indicators of risk. Cubic displacement, I was told, may bear little relationship to a motorcycle's high performance capability.

III. CANCELLATION OF MOTORCYCLE REGISTRATIONS

(See Position Paper No. 3)

Motorcyclists are also concerned about the pricing of their insurance coverage. They claim that while they can use their bikes for only six months of the year they must pay a premium for almost a full year. If they register their motorcycles in the spring and return the licences for cancellation in the fall, the rebate they receive does not approach the unearned premium which they have paid. They claim that the pro-rating is unfair and discriminates against seasonal motorists, such as motorcyclists. Motorcyclists also questioned the comprehensive coverage for their vehicles for the winter season.

IV. MEASURING RISK

(See Position Paper No. 3)

Some people thought that rating should be based solely or principally upon individual accident experience, not upon the value or the type of vehicle driven, the territory of residence, or the vehicle use. Those criteria, it was argued, unfairly prejudged individual risk. This suggestion is not specifically addressed in the position papers which follow. An automobile insurance company exposes itself to greater or lesser risks depending upon these factors. If they were not employed in premium rating, those who pose minor risk would be overcharged, while those who pose greater risk would be undercharged. One would not expect an insurance company to insure a $200,000 home against fire for the same premium as a $75,000 home.

V. ARBITRARY RATING OF COMMERCIAL TRUCKS

(See Position Paper No. 3)

1. PSV-CT Distinction

Nor was the trucking industry happy with the rating of commercial trucks in Manitoba. The Autopac rates for trucks which carry the owner's own goods are substantially lower than rates charged for trucks which transport the goods of others. The reason for the difference, if there is one, escapes the truckers, particularly those who transport the goods of others. They argue that the risk is the same regardless of whether the truck is transporting goods belonging to the owner of the truck or the goods of another party. The truckers believe that rates should be set according to risk and exposure and not by vehicle licence category.

2. Manitoba Trucker -- Interprovincial Truckers

Interprovincial truckers, whether based in Manitoba or elsewhere, may purchase their insurance in other provinces, where the premiums for equivalent or better coverage than that offered by MPIC is less expensive. The provincial truckers, a captive market to MPIC, must pay more for their insurance than their interprovincial competitors, and are also forced to accept and pay for all unwanted perils coverage. They are annoyed.

Trucking industry representatives, however, support surcharges based on losses incurred for at-fault accidents. They believe surcharging on that basis is an appropriate method of discouraging poor driving.

VI. FLEETS

For the 1988 insurance year MPIC, I was told, intended to withdraw a benefit previously in place for the owners of fleets of vehicles whose loss experience in a given year is low. There was disappointment that the corporation intended to suspend the rebate program for fleets. They argued that the ability to obtain a rebate was an important incentive to the encouragement of good driving habits. They were hopeful that the program will not be suspended. At the time of writing this report it is the commission's understanding that the corporation does not intend to withdraw that program.

VII. MOTORHOMES AND TRAILERS

(see Position Paper No. 3)

There were complaints about the corporation's basic insurance limit of $15,000 on certain types of vehicles such as motorhomes and trailers; more particularly there were complaints about the "exorbitant" premium of $10 per $1000 for declared excess value insurance upon those vehicles. At $10 per $1000, it would cost the owner of a motorhome worth $40,000 the additional sum of $250.

VIII.MOTORCYCLES

Motorcyclists cite statistics demonstrating that in half or more of the accidents involving motorcycles it is a motorist and not a motorcyclist who is assessed to be at fault. Nevertheless the costs incurred for injuries sustained by motorcyclists are charged by the corporation to motorcycles as a rating class, thus showing losses for which they bear responsibility much higher than it should be. The corporation, I was informed, sets premiums for motorcycles on those inflated loss figures.

IX. MULTIPLE VEHICLES FOR FARM USE -- ONE OWNER

A farmer requires and owns several different vehicles each for a different use in the conduct of his farming operation. Since he and his son can use only two of them at any one time, the corporation is at full risk respecting only two of them at any one time. He feels that it is unfair that he must pay a full insurance premium on all of them. A suggestion, in this regard, was that he be required to purchase plates for the two most highly rated vehicles which he owns and that he be permitted to transfer those plates to other vehicles which he owns when they are being used. That suggestion neglects consideration of comprehensive coverage on the stationary vehicles.

To accommodate that farmer, and perhaps others, special registration provisions would have to be written and special registration forms would have to be designed. I envisage that the administrative complexity of designing a system which would accommodate this farmer might present difficulties. The point which the farmer makes, however, seems to me to be compelling. In the sometimes greater flexibility of private sector insurance, one or other of the companies which offered automobile insurance might have accommodated this farmer's special circumstances. A public system should aim at private sector flexibility as far as is feasible.

Recommendation A.02: That through special risk extensions department -- and jointly where necessary with the division of driver and vehicle licensing -- the corporation develop a greater flexibility to design insurance products or features for special cases.

X. DRIVERS' RECORDS

(See Position Paper No. 3)

1. Background

At the inception of Autopac in 1971, the registrar of motor vehicles maintained records of highway traffic convictions recorded against drivers licenced in Manitoba. These convictions were translated into demerit points. The number of points for each conviction depended on the seriousness of the offence. A speeding conviction resulted in an assessment of two demerit points. A driving while impaired conviction resulted in an assessment of ten demerit points.

The registrar used the demerit point system as a means of identifying problem drivers. They might be suspended or called in for retesting. Together with the demerit point system, the registrar also assigned merit points to those drivers who sustained no convictions for highway traffic offenses.

At its inception in 1971, the corporation adopted and used the Registrar's demerit point records as a basis for charging additional premiums upon the drivers' licences of those who had more than five demerit points. More recently, the Corporation adopted the registrar's record of merit points to provide discounts to those drivers with good records.

2. New Residents in Manitoba

Merit and demerit premium adjustments were criticized both in the letters received and at the meetings held. The patent unfairness of MPIC's refusal to grant the benefit of the merit point reduction to drivers who had only recently become residents of Manitoba provoked feelings of resentment. The corporation had promptly assessed additional premiums against other new residents for convictions and accidents recorded against them in other places. This inconsistency, as it operated in favour of the corporation, did not escape notice.

3. Motorcyclists, Commercial Drivers and Leisure Vehicle Owners

Motorcyclists were angry because they were denied absolutely the premium reduction for merit points, accorded to the owners of other passenger vehicles. The owners of commercial vehicles and of leisure vehicles as well expressed bitterness at their exclusion from the benefit of reduced vehicle premiums when they had merit points.

4. 20-Year Accident-Free Commercial Driver

A commercial driver with a 20-year, accident-free, conviction-free record thought that he should be entitled to the merit point reduction on his vehicle premium for his good driving record. On his behalf it was argued as well that merit points should be awarded rather for the number of accident-free, conviction-free miles driven, than for the years of accident-free and conviction-free driving.

Compared to commercial drivers, most others are exposed little to the hazards of the road.

5. Punishment and Reward

Some people thought that the reward in terms of premium reduction recorded for merit points was too little and did not adequately reward those whose driving habits were good. Some of those same people thought that the additional premiums charged for convictions and the surcharges added for at-fault accidents were not nearly steep enough to deter poor driving habits or to pay for the losses incurred by MPIC due to those poor driving habits. Some held the view that demerit points for convictions sometimes have no direct relationship to insurance risk and do not justify additional premiums.

6. For What Offences?

People are confused about the convictions for which they will be assessed demerit points.

XI. INSURANCE PROTECTION PROVIDED

(See Position Paper No. 3)

1. All Perils

a. Passenger Cars

Almost uniformly those who addressed the commission urged that the coverage for damage or destruction of ones own vehicle should be optional. The owners of older vehicles, particularly, were upset that the premiums they were compelled to pay were close to or exceeded the write-off values of their vehicles. It became apparent that many assumed that the largest portion of their premiums paid for their own vehicle damage coverage. They were not aware of how their premiums were apportioned to pay for three kinds of protection they purchase: the no-fault accident benefits coverage, the all perils coverage and the third party liability coverage. They did not know because neither the registration certificate/insurance certificate which they receive upon the registration of their vehicles, nor any other document issued by MPIC to its policyholders, provides information as to the premium apportionment.
(See also Position Papers No. 1 and 10.)

b. Commercial Trucks

Truckers have had a long standing grievance that MPIC compels them to purchase its compulsory all perils coverage. Some view the present basic $650 deductible on all perils coverage as far too low for commercial vehicles. Many wish all perils coverage to be optional. If it is maintained as a compulsory coverage, however, the basic deductible, I was told, could be as high as $10,000 or $20,000. They believe as well that they should have the option to purchase third party liability coverage up to $10 million or to $20 million.

c. Valuation-Special Vehicles

Several people, including the representatives of the Manitoba Antique and Classic Auto Club and the representatives of motorcycle organizations, expressed unhappiness about the method of appraising the write-off values of their vehicles. One solution recommended was that MPIC offer coverage for a maximum declared value, whereby through independent appraisal, an owner could insure his vehicle for a specific appraised value to be determined at the outset.

The Manitoba Antique and Classic Auto Club was of the opinion as well that MPIC should add a rating category for vehicles the club describes as "collector cars": vehicles which do not meet the special vehicle licencing criteria of "antique" vehicles but are, nonetheless, older vehicles that are maintained as collector items and which are used only for display purposes. It was argued that the owners of all such vehicles have other vehicles for regular use on which they pay full regular premiums. Under the present system, however, they are required to licence and pay the full regular premiums as well for their "collector cars" which are driven infrequently for display purposes.

2. Motorcycles-Passenger Hazard Coverage

(See Position Paper No. 3)

Motorcyclists were unhappy, too, that unlike other motorists, their basic Autopac coverage excludes passenger hazard coverage. Such coverage is available only through the purchase of special risk extension coverage. As well, it is claimed that when they arrive to cancel their insurance in the fall the premium of the extension coverage is not fairly prorated.

XII. BODILY INJURY COMPENSATION

(See Position Paper No. 2)

Compensation for bodily injuries may be obtained by an injured person, (a) from the limited no-fault benefits provided by Autopac, or (b) from the less limited proceeds of a settlement or court award, when the victim establishes that someone else, usually the other driver, was at fault.

1. The Case of M

As of June of 1987, there were in Manitoba 128 people who, having survived serious automobile accidents, remain unable to work and are receiving disability benefits. The commission heard from one of them by letter.

In 1974 M was 17. She was then a waitress working at the minimum wage, but she aspired to better paying work when she turned 18. Injured in a motor vehicle accident, however, she lost one of her legs above the knee and one of her arms is paralyzed. She now has an artificial leg and has some mobility. She is not employed.

She sued and won a judgement of $202,610 against the at-fault driver. Her letter to the commission reads, in part, as follows:

> ". . . however because of insufficient insurance of another person, I got $50,000. $30,000, after I paid $20,000 to my lawyer.*

* The Commission has not verified the accuracy of the amounts quoted.

> "With this money I bought my house, and as I have said, with taxes, fire insurance, food and everything else going up I'm beginning to wonder how long I'll even have that."

The tragedy of M is mitigated only by the fact that MPIC has paid her a minimum indemnity. Presently that indemnity is $150 per week. Assuming that she is entitled by law to an indemnity, $150 is hardly enough, she feels, to maintain herself. Had she been older when she was injured, she expects she would have been earning much more than the minimum wage, and would have been entitled to a larger indemnity. What 17 year-old, she asks, has reached her earning potential? She feels it is unfair to be condemned, as she has been, to the minimum disability benefit.

2. The Case of D

Another expression of concern about the compensation provisions for bodily injury was from a person who had been rendered a quadriplegic in 1953 when she became ill with polio. At that time she was placed on a support system, including a respirator, to assist her in breathing. Over the years, through her own efforts, I understand, she developed the ability to breathe without the respirator for a few hours at a time.

In 1985, as a student attending the University of Manitoba she was a passenger in a wheelchair van which was in an accident with another vehicle. From that incident, she says, she suffered severe whiplash injuries and became entirely dependent, once again, upon her respirator.

In early 1987, again on her way to the university in a wheelchair van, the vehicle went over a speed bump, and as a result she was injured. She says she could not breathe and that she suffered a double whiplash from that incident.

At the time of the commission's meeting which she attended in her wheelchair she was connected to her respirator and was wearing a neck brace. The provincial homecare service formerly paid for an attendant to assist her while her husband was at work, but no longer does so. The course that she had been attending at the University of Manitoba was a vocational rehabilitation development program. Presumably, through that course, she hoped to develop a marketable skill or simply improve her own quality of life. As a result of the second accident, however, she was rendered ineligible for that program. She says that when she approached Autopac for the payment of benefits she was told unceremoniously that since she was already disabled she was ineligible.

3. Paraplegics-Cost of Living

A lawyer with experience in handling automobile accident cases expressed specific concern for those who, because of a motor vehicle accident, have been rendered paraplegics or quadriplegics. His letter is, in part, as follows:

> "The Canadian Paraplegic Association, who are extraordinarily helpful in the calculation of the future care cost requirements of such plaintiffs, advise consistently that needs for paraplegics and quadriplegics range from house renovations, furniture and appliance acquisitions or changes, medical equipment acquisitions or changes, transportation acquisitions or changes, training and education requirements plus an allowance for monthly repairs and replacements. The original capital outlay assuming that a house does not have to be purchased, usually exceeds $100,000.00 and usually closer to $150,000.00.
>
> "Monthly repairs and replacements usually average $1,000.00 per month and monthly expenses for future care costs will range anywhere from $2,000.00 to $4,000.00 depending on the level of support from the family and the necessity or lack of necessity of nursing care.

> "The difficulty is that under the M.P.I.C. regulations there is a $20,000.00 impairment benefit and a $100,000.00 medical benefit. Assuming that the driver has $200,000.00 coverage where a party is an innocent victim of an accident, the most he will have available to him is $220,000.00 plus those expenses that are justifiable under the medical benefits provision up to $100,000.00. Renovating one's home, or buying a home, or buying a car, do not generally qualify under this provision.
>
> "I have been informed that the number of people who have quadriplegic or paraplegic type injuries per year arising out of motor vehicle accidents is somewhere between 6 and 8. The costs therefore to bring these up to a respectable level of coverage, spread around the entire driving population would not be substantial."

The letter proceeds to demonstrate the impossible burden upon those who are rendered paraplegic or quadriplegic if they must rely on the no-fault benefits from Autopac. The writer did not advocate an increase in no-fault benefits. He believes that the relief from forfeiture provisions of The MPIC Act would enable drunk drivers who injured themselves to receive very large rewards if the no-fault benefits were increased sufficiently, and "there would likely be opposition" to the payment of benefits to them.

His solution is to deem a $2 million limit on public liability coverage for anyone who through negligence in the operation of motor vehicle causes injuries which render the victim a paraplegic or quadriplegic. Assuming that some of the six to eight such victims per year to be innocent victims, the number is so small, he feels that the cost borne by the entire driving population would not be onerous.

4. Tort

The Manitoba branch of the Canadian Bar Association in its brief to the commission addressed the perception that insurance costs have skyrocketed due to excessive bodily injury awards for pain and suffering. The bar opposes any artificial capping beneath the limit which has already been set by the Supreme Court of Canada in the Trilogy, a series of three cases in which the Supreme Court limited awards for non-economic losses sustained by injured plaintiffs.

The bar submits that any further limit would be inequitable. It argues that the quantum of awards and settlements consists, in part, in amounts allowed for losses of future wages. The bar suggests that court awards for losses of future income would be reduced if MPIC were to initiate more aggressive rehabilitation programs under its no-fault provisions. The proposal is that funds expended on those programs be without prejudice to any tort recovery -- that is, recovery through court action for a wrongful act which gives rise to injury.

If I understood this submission correctly, there would be reduced awards for future losses of earnings, since courts would be aware that adequate "rehabilitation-educational allowances, vocational counselling and job placement services" are available to victims, a factor that would enhance the likelihood of return to employment, and thus reduce the need for awards as high as they might otherwise be.

The Bar Association expressed concern about the plight of victims struck by uninsured or underinsured motorists. It suggested that the corporation consider including underinsured motorist coverage as a basic coverage. The corporation has indicated that this subject is among those being considered by it. The subject is touched upon in Position Paper No. 3 of this report on improving Autopac ratemaking and insurance pricing.

5. No-Fault Benefits

Regarding no-fault benefits, the bar makes several points:

- The no-fault benefits are too low. If set at a higher level, fewer cases would be litigated under the tort system since no-fault benefits are deducted from the amount of any judgement recovered.
- The bar is concerned that to be entitled to disability benefits, disability must occur within 20 days of an accident.
- It is concerned that disability payments can be terminated without notice if an updated physician's certificate is not received by the corporation on time.
- Seriously injured claimants who are hospitalized receive no benefits until the corporation receives a medical certificate.
- Claimants must usually wait at least a month to receive disability benefits.
- To assure the continuation of benefits they "are obliged to coerce their physicians into providing medical updates in a timely fashion".
- Even when the payments become automated, they are not made punctually.
- MPIC attempts to terminate benefits upon the basis of a physician's letter which says "this person could return to a light duty or sedentary type of occupation", even though that victim's regular occupation was that of a labourer, with no skills beyond that.

It is suggested by the bar association that a sensible way of dealing with complaints regarding the no-fault benefits would be the appointment of an MPIC ombudsman to whom the aggrieved parties could have recourse. In my opinion, that is a sensible suggestion.

Upon the issues raised by the bar association, I spoke directly with the corporation's bodily injury claims manager. He advises that once or twice a year, there may be a computer breakdown which will delay the issuance of regular disability cheques. If advised, however, of cases of hardship arising out of delay due to computer breakdown, manually produced cheques will be issued.

Outside of those areas which are governed by legislation and not by discretion, it seems fair to say that the claims department is bound by rules designed to avoid or prevent the payment of monies to which a claimant is not entitled. In its attempts to fulfill that aspect of its function, disputes do arise. On the evidence that I have received, I am unable to judge whether MPIC's claims personnel have acted reasonably or unreasonably, either generally or in any specific case.

There is evidence before the commission that several complaints were made to the provincial ombudsman about disputes over vehicle damage. In those cases, the ombudsman took an active role in attempting to intervene on behalf of those complainants with MPIC. The correspondence which the commission has received from the ombudsman's office, demonstrates a competent and responsible approach by the ombudsman to MPIC in order to resolve the problems associated with the complaints he had received. Unfortunately, however, MPIC did not respond to the ombudsman for several months, and the final result appears to have been unproductive.

The appointment of MPIC ombudsman is appealing. Given specific authority, the office of the provincial ombudsman might fulfill the function suggested. I discuss and make recommendations concerning a proposed role for the provincial ombudsman at pages 40 and 41.

XIII. RENEWALS

(See Position Paper No. 4)

Many people commented upon the present system of annual renewals. Several suggested birth date renewals. They believed birth date renewals would relieve the congestion and make the process easier on everyone. Some of the agents felt that birth date renewals or any system that spreads the distribution of Autopac renewals throughout the year would provide them with greater opportunity to assist clients individually and improve the quality of the service they provide. The Manitoba Insurance Brokers' Association, however, did not concur in that view. It was the association's view that instead of one annual rush for which agents employ additional staff, there would be twelve smaller rushes throughout the year, without significantly greater opportunity to service clients. I cannot report any common view of what alternative system would be an improvement.

1. Impact on Business

Birth date, or some other system of renewal distribution throughout the year, would, it was suggested, alleviate the impact of the February 28 renewal upon retail sales.

2. Financing of Premium

A few people argued that, as in some other jurisdictions, vehicle owners in Manitoba should be able to pay their premiums monthly through the use of colour coded monthly licence stickers.

3. Information about Coverage

Several people complained that it was difficult to obtain information about the insurance coverage which they purchased. More than one person said that when they asked for information from an agent they were told that they should obtain a copy of the Automobile Insurance Regulations.

XIV. AGENTS

(See Position Paper No. 4)

1. Appointment

Some expressed their belief that the appointment of agents was based upon patronage rather than upon professional skill or qualification. The Manitoba Motor League (MML) with a large membership serving persons across Manitoba, has been refused a licence to act as an agent. It feels there is discrimination. The brokers' association, in response to the complaint by the MML, suggested the league may not be prepared to accept the professional responsibilities that go with selling an insurance product.

2. Drivers' Licence Renewals by Agents

Autopac agents in the urban centres believe they should be permitted to sell drivers' licences as well as vehicle registrations. No particular benefit to insured persons was suggested.

3. Automation

Some agents also advised that they are already equipped with microcomputers and are anxious to use them in their Autopac business. It was urged that MPIC develop a software package

for their agents' computers. They believe that such a package could be developed for approximately $35,000, and that an automated system could reduce errors and improve the quality and efficiency of their work.
(See Position Paper No. 9.)

4. Communication-Rural Agents and MPIC

Rural agents believe that, for efficiency, MPIC should provide them with a toll free number for their consultations with MPIC's staff. Currently, agents make collect calls each time information is required. One agent complained, as well, that too often MPIC staff treat agents with suspicion and discourtesy when they seek advise. Rating information provided to the agents, I understand, is sometime imprecise or ambiguous. The calls are necessary to seek clarification. On the basis of this complaint alone, it would be improper to judge the courtesy of MPIC staff.

5. Information from Agents and DDVL Employees

One person complained that she had been put to expense and inconvenience and that she was subjected to police scrutiny because of incorrect information received from an Autopac agent as well as from an employee of the Division of Driver and Vehicle Licencing. The problem concerned the different conditions of use attaching to a "T" plate and to a "CT" plate. This complaint is not addressed directly by any of the position papers.

Assuming, however, -- only to make a point -- that she did make the appropriate inquiries and provided the appropriate information, incorrect advice which may have placed in jeopardy her insurance coverage, or may have placed her at risk of police apprehension because of her unintended imperfect compliance with registration requirements, is unacceptable.

6. Communication-Agents and MPIC

An agent expressed the view that there is insufficient understanding between the corporation and the agency force. It was his view that there should be regular meetings, at least annually, between representatives of the brokers' association, MPIC officials and representatives of government to discuss and resolve issues that arise. He felt that such meetings could foster greater understanding and strengthen the agency function, with resulting benefits both to the corporation and to the public.

XV. VEHICLE REPAIRS

(See Position Papers Nos. 1 to 5)

1. Autobody Shops

Among some people there was a perception that the autobody repair business is lucrative, that bodyshops are being overpaid, and that MPIC's adjusting and estimating practices are loose and over-generous.

2. Hourly Rates

For their part, the autobody shops -- represented, in part, by the Automotive Trades Association (ATA) and the Manitoba Motor Dealers Association (MMDA) -- say that the rates they are paid have been dictated by MPIC rather than negotiated. They claim that they are paid less for their work than their counterparts in Saskatchewan and British Columbia. In those provinces, motorists are also served by publicly owned automobile insurance organizations. The hourly labour rates "dictated" by MPIC, they say, have increased below the rate of inflation.

For the estimation of work times necessary to perform various repairs and replacements of parts, Autopac staff use authoritative guides, such as the Mitchell Manual. Members of the repair industry, however, claim that Autopac estimators substitute their own discretion for the times recommended by those guides, to the frequent detriment of the repair shops. They also argue that the permitted mark-up on parts is inconsistent and less than satisfactory.

3. Rates Set by Public Utilities Board or Arbitration

Because of the alleged absence of real negotiations with MPIC, the ATA and the MMDA advocate that the Public Utilities Board should set the hourly rates, or that they should be set by arbitration. It was argued, as well, that the repair industry should be represented on the MPIC board of directors so that the interests of its members could be represented.

4. 1988 Increase of Deductibles

The automobile repair industry also expressed bitterness that the 1988 increase in all perils deductibles unfairly affected the autobody shops. The corporation maintained its deductibles at the same level from 1971 until 1988. The sudden substantial increase from $200 to $350 in 1988, they believe, has reduced and will reduce the volume of repair work, a factor that will reduce MPIC's losses directly at the expense of the autobody trades. It was argued the sudden and very substantial increase was unfair to the autobody shops.

5. Damaged Glass

From submissions received, it appears that there is a growing glass repair industry which has the ability to repair many damaged windshields which would otherwise be replaced, at a fraction of the cost of replacement. Glass which is merely bruised may be repaired at a cost of $45. Replacement cost averages $350.

I was informed that in order to encourage the substitution of repair for replacement, MPIC will absorb the deductible on glass for those who exercise the option to repair instead of replace. One of the representatives of this industry claimed, however, that MPIC adjusters often fail to inform the vehicle owners of the repair option. It was argued that MPIC pays several million dollars per year in windshield replacements. Substantial savings would result, they feel, if Autopac adjusters advised vehicle owners of the alternative.

6. Glass Adhesives

An autoglass shop representative claimed that MPIC adjusters will not authorize the use of a particular glass adhesive for affixing new windshields. That particular product is recommended in one manufacturer's specifications. It is more costly than the adhesives which adjusters will authorize. Concern was expressed about the safety of glass installed with an adhesive that is not recommended. The representative was concerned as well about his own personal liability if, because of the use of an unsuitable or inferior product, the windshield fails to adhere under stress, and injuries, or greater injuries, result. This concern is not dealt with in the position papers which follow. Nor has the commission been able to assess the concern expressed. Since glass repairers may have legitimate concern about personal liability, and since the issue itself relates to safety, it is one that should be assessed by MPIC.

Recommendation A.03: That MPIC obtain an independent assessment of safety risks which may attach to the use of a glass adhesive other than that recommended by glass manufacturers and report the results.

7. Shop Accreditation

It is of concern to the repair industry that MPIC had implemented no system of shop accreditation. Those with a large investment in equipment to perform complex repairs must compete at the same labour rate for all work as "backyard" repair operators whom, it was suggested, cannot properly do the more complex work. It was suggested that accreditation would better assure the consumer of quality work. In this regard a representative of the industry advised that he was encouraged by the belief that MPIC had a proposed accreditation system under consideration.

XVI. TOWING

(See Position Paper No. 5)

1. Winnipeg and Brandon

As MPIC has exclusive agreements with towing contractors in Winnipeg and Brandon, other towing firms are excluded. The excluded firms state that the Insurance Corporation of British Columbia, which formerly operated with one towing contractor, as does MPIC, has abolished that system for what is described as a fairer system. Under it, police officers are furnished with a list of several towing contractors who are called upon in rotation.

A representative on behalf of the excluded towing contractors told me that the requirements of the tender to bid on the MPIC towing contract are unreasonable. He argued that the amounts of the bid bond and the performance bond specified by MPIC make it impossible for the smaller operators to bid on the contract. The towing contractor which has the Winnipeg work, however, argues the MPIC requirements are justified. The commission was told that it is necessary for the successful bidder to have separate space in a compound where damaged vehicles can be held for police inspection, and that it is necessary for the successful bidder to have the equipment necessary to move inoperable vehicles which cannot be towed. The bid bond and the performance bond, it was suggested, help to assure MPIC that the bid tendered is serious and that the towing contractor who has made the bid is a responsible and financially stable operator.

[illegible]. Between Shops

Some people who addressed the commission believe that MPIC is paying for tows which should be the responsibility of others. When, for instance, a damaged vehicle is towed from one repair shop which does general work to a specialty repair shop for other work, and is then towed back to the general repair shop, MPIC pays for both tows. It was observed that prior to Autopac the repair shops themselves absorbed the cost of those towing services. I would assume, however, that under the old system, the costs of those tows would have been incorporated into the price and paid by customers or their insurance companies.

3. Inoperable Vehicles

Formerly, inoperable vehicles were towed to claims centres in Winnipeg. A tow truck operator would bring the vehicle to a claims centre and wait in the "no appointment line" until the vehicle could be attended to. I was informed that under that system the tow truck operators sometimes were required to wait considerable lengths of time and that the hourly costs for the waiting mounted. That system was then changed to one which requires tow truck operators to deliver all inoperable vehicles in Winnipeg to the Plessis Road compound for estimation.

The present system appears more efficient because it enables the tow truck operator to tow the inoperable vehicle to the compound and leave it there without waiting in a queue. When, however, the vehicle damage has been estimated, and the adjuster has done his or her work, the vehicle, if it is to be repaired, must be towed to the repair facility of the owner's choice. The second tow adds additional costs. It appears that part of those costs are unavoidable since under the old system a tow truck operator was required in any event to tow the vehicle from a claims centre to the repair facility of the owner's choice.

There was a suggestion that the system would be less costly if the vehicle were delivered, on the owner's instructions, directly to the repair shop designated by the owner. Field staff could then attend those shops to do the necessary damage estimating. Field estimators, I am informed, do make on-site inspections outside of Winnipeg and Brandon.

XVII. CLAIMS PROCEDURES FOR REPAIRABLE VEHICLES

(See Position Paper No. 6)

1. Apportionment of Liability

There is the impression among some that when there is a dispute as to who caused an accident, MPIC's claims adjusters most frequently divide responsibility between the parties equally. Some thought that in the case of dispute, adjusters merely follow the line of least resistance concerning the apportionment. Others, less trusting, thought that the allegedly frequent 50/50 apportionments were based rather upon an MPIC policy designed to extract deductibles from both parties. Random selection evidence of claims files for the year 1986, however, indicate that less than two percent of contested claims were adjusted on the basis of a 50/50 apportionment.

Conclusion: That there is no evidence of an MPIC policy requiring adjusters to apportion liability equally between the parties to an accident, nor that it is a frequent practice for MPIC adjusters to do so. The evidence is to the contrary.

2. Review of Adjusters' Decisions by Small Claims Court

i. A person whom the adjuster assesses as 50 percent or more to blame, and who then becomes responsible for his or her own deductible, may recover the deductible from the corporation by suing the other party in the small claims court and proving that the other party was at fault. Subject only to the corporation's right of appeal, the corporation is bound by the court's decision and must pay or rebate the deductible to that person.

If, however, a person's own vehicle is not damaged in the accident and, therefore, no deductible is payable, he or she will have no claim upon which to sue the other party in the small claims court and no way, therefore, to challenge the adjuster's ruling.

The ramifications of that limitation on the ability to challenge an adjuster's assessment can be costly if, within the same surcharge period, that person is in another accident for which he or she is at fault. For the first at-fault accident in any surcharge period, no accident surcharge is assessed on the next driver's license. For a second at-fault accident in the same period, however, a substantial surcharge is assessed and imposed. Because that person is unable to challenge the adjuster's ruling in the first instance, he or she will be burdened with a surcharge for the second accident arising out of the unchallenged assessment of responsibility for the first accident.

The MPIC Act does provide an avenue for appeal to a Rates Appeal Board against a surcharge, if it was assessed on an incorrect record, or on the basis "that in the circumstances, the assessment of the surcharge in question is unduly harsh". To obtain a favourable ruling from the rates appeal board, a person wishing to exercise his or her right of appeal would probably have to satisfy the board that he or she was not responsible for the first accident. Time, however, diminishes the capacity for recollection. Records and notes may not be retained and witnesses' names may be lost.

As well, people who having had a first "at-fault" accident in a given surcharge period and with knowledge that they are not going to be surcharged for that accident, might well simply decide to pay the deductible for the damage to their own vehicles, rather than go to court. They may make that decision even though they believe that they were not 50 percent at fault. They are not likely to realize the results of their inaction unless they have another accident within the same surcharge period.

Conclusion: The inability to challenge an adjuster's assessment of responsibility when no claim is involved and the naive failure to do so because no surcharge is assessable can have unfair consequences.

Recommendation A.04: That as adjusters' assessments of responsibility for accidents may affect the assessment of MPIC surcharges at any time, legislation should be enacted authorizing an appeal to the small claims court, for a declaratory judgement as to the apportionment of fault for a motor vehicle accident.

2. Communication of Rights

In my opinion, everyone who is assessed by an adjuster to be at fault, whether or not there is a claim for the repair of that person's vehicle, should receive written notice that he or she may challenge the ruling in the small claims court.

3. MPIC Appeals from Small Claims Court Decisions

A lawyer representing the Brandon police department addressed the commission upon a specific case. She told the commission that a Brandon police officer had been in an accident with another party. The adjuster had apportioned driver responsibility between the parties equally. MPIC advised, by letter, that its apportionment of liability could be challenged in the small claims court and that the corporation would be bound by the judgement of any court of competent jurisdiction.

It should be noted that MPIC is bound under its regulations to defend a party who has been sued. It is not bound, however, to represent a party who wishes to make a claim. In this respect, The MPIC Act adopts the private sector model.

The police officer sued the other party to the accident for his deductible. At the hearing, the police officer was represented by his own counsel and the other party was represented by a staff lawyer from MPIC. At the conclusion of the hearing in the small claims court, the adjuster's ruling was upset. The other party was held 100 percent responsible for the accident.

Contrary to the impression MPIC had given by its earlier letter, it then advised the officer that the judgement of the small claims court would be appealed to the Court of Queens Bench, a right which it has, and should have.

The lawyer who represented the police officer before this commission, however, advanced three points:

- That MPIC's letter conveyed the distinct message that it would abide by the ruling of the small claims court when it wrote it would be bound by the decision of "any court of competent jurisdiction." To have conveyed that impression and then to appeal was wrong.
- That it is unfair, when the dispute is between two individuals over a deductible, that one should have the advantage of being represented by the corporation's counsel without cost to him or her, while the other who is also insured by the corporation, must pay for those services personally.
- That there is something unconscionable about forcing an appeal, with its inherent cost and inconvenience over liability, for a deductible which in this case amounted to $100.

In my opinion, the letter from MPIC was misleading. It appears to have been a form letter. The form should be improved.

The issue of legal representation is more difficult. MPIC has both the obligation and the right to conduct a defense on behalf of an insured who is sued. The small claims court, however, was designed to provide people with access to an informal and inexpensive judicial tribunal, without the necessity of employing counsel for the determination of small claims. Since MPIC is obliged to act on behalf of an insured who is sued in a small claims court, that design is defeated. It may be argued

- that MPIC should be relieved of the obligation to defend its insured in the small claims court for a claim involving a deductible, or
- that MPIC should be required to provide counsel to the plaintiff in such a case.

The first of the two alternatives would be preferable in terms of the original purpose of the court and in terms of cost to MPIC. For MPIC, there can be little, if any financial interest since regardless of which driver is found at fault, MPIC will be responsible for one deductible. Only in those few cases when the court apportions liability equally between the parties, would MPIC save on both. Representing the defendant, MPIC's counsel could hardly be advocating that result.

I am unable to identify any justifiable reason for the continued obligation upon the corporation to provide counsel to an insured who is sued over a deductible.

I agree as well with the submission that MPIC's exercise of its right to appeal a small claims court decision involving a deductible seems unconscionable. Recognizing, however, that it may have good reasons for doing so, I would not advocate restricting its right. At that stage, however, I do not think the respondent should have to bear the costs of retaining a lawyer.

Recommendation No A.05: That if MPIC, in any case, appeals the ruling of the small claims court, that it be responsible to pay such reasonable costs as may be incurred by the respondent for the services of a lawyer.

Recommendation No. A.06: That The Manitoba Public Insurance Corporation Act be amended to relieve the corporation of the responsibility to defend an insured who is sued in the small claims court for the recovery of a deductible on a vehicle repair claim.

XVIII. ADJUSTING VEHICLE CLAIMS

(See Position Papers Nos. 4, 5 and 8)

1. Former Practice

Some people believed that the vehicle damage adjusting system which predated Autopac, if re-implemented, would save the corporation money. Adjusting then,I was advised, was performed by an insurance company appointed adjuster. I was told that the adjuster would require the owner of the vehicle to seek estimates from three different body shops. The vehicle owner would then have his or her car repaired by the shop which provided the lowest estimate. It was argued that the capital investment and expense of the Autopac Claim Centres could be avoided by a return to the former system.

2. Motorcycles and Trucks

Related to claims procedures, as well, is the complaint by motorcyclists and the owners of trucks that the corporation's staff is not trained or skilled enough properly to estimate and adjust for repairs to trucks and motorcycles.

(See Position Papers No. 5 and 8.)

3. Adjusting with "Carefree Abandon"

On March 16, 1988, during the course of the commission's review, a newspaper article appeared concerning an MPIC repair estimate for a vehicle owned by a Mr. Walter Champion. The article said that this case was a powerful example of how Autopac "throws away our premium dollars with carefree abandon".

Initially intending to settle privately with the women who had caused damage to his car rather than making a claim through Autopac, Mr. Champion obtained estimates from three different repair shops. He was attempting, on the women's behalf, to obtain the best price. He found, however, that the cost of repairing his vehicle, according to those estimates, was considerably more than he had expected. One of the shops estimated the job at $548.91; the others were somewhat less than $500. He reported the accident to the police, therefore, and lodged a claim with Autopac.

An MPIC adjuster estimated the cost of repairs at $723.17, higher than the most expensive estimate he had received from the repair shops by $174.26. On the face of it, this case appeared indeed to be a clear example of over generous adjusting and wastefulness. Mr. Champion provided the commission with copies of two of the repair estimates he had received.

I traced the details of the case through MPIC and through one of the repair shops which responded to my request for information. Based upon the information I received, I am satisfied that the MPIC allowance was not overestimated.

MPIC understands, correctly, that its legal obligation requires it to provide the sum necessary to restore a vehicle to its pre-accident condition. I have been told by the autobody shop which responded to my inquiry that when a customer is seen by a repair facility to be "price shopping" he or she may be offered a job which either leaves the less serious damage unrepaired, or restores appearance, but omits less essential work beneath the surface.

Both of the two repair shop estimates which I have seen omit repairs which the MPIC estimate authorizes. It is evident that the estimates which Mr. Champion received from those two repair shops were less than the MPIC estimate because they accounted for less work or fewer materials than the MPIC estimate authorized.

Mr. Champion has advised the commission, however, that he presented the lower repair shop estimates to the Autopac adjuster and questioned the Autopac estimate. In response, he advised the commission that the Autopac adjuster discounted the lower estimates and told him that it was the Autopac adjuster's opinion that counted, not the others.

Only Mr. Champion and the adjuster will know exactly what was said in the privacy of their interview. If, however, assuming Mr. Champion's account of the discussion between himself and the adjuster to be true -- and I make the assumption only to make a point -- the adjuster, and ultimately the corporation itself, would bear responsibility for the unfavorable publicity the corporation received. An explanation by the adjuster, if indeed it was not given, as to the reason for the difference in the estimates may have shown Mr. Champion that the MPIC estimate provided for complete repair while the others did not, and the mischief that followed might have been averted.

XIX. CLAIMS CONCERNING BODILY INJURIES

1. Disputes

A woman who is a nurse, and who was injured in an accident, claimed that the adjuster handling her case insisted that she submit to examination by a medical specialist whom she believed to be less than well qualified to deal with her particular injuries. She wished to see another specialist. The adjuster, however, would not authorize examination by that doctor. As a result of a delay in attempting to resolve this issue, she could not make a claim, as I understood her, for certain benefits.

Reviewing the provisions of Section 11 of Manitoba Regulation 333/74, following the meeting, it appeared evident that there was nothing to prevent her from seeing the doctor of her choice, as well as the doctor designated by the adjuster, and that she retained the right of action against the corporation in the event that there was a dispute as to the medical effects of the injury which she had suffered. The experience of the nurse illustrates a need for access to independent advice. Short of retaining the services of a solicitor, I believe the office of the provincial ombudsman has the capacity to examine complaints such as this and to assist.

Recommendation A.07: That the provincial ombudsman be promoted as a resource for information to people who feel aggrieved by the decisions or directions of an adjuster for bodily injury claims concerning the no fault benefits.

Recommendation A.08: That the provincial ombudsman be empowered specifically to recommend to MPIC the extension of the 20 day limit and 90 day limit, respectively, within which disability benefits and impairment benefits may be claimed, and that The MPIC Act be amended to enable the corporation to comply with recommendations of the ombudsman.

Recommendation A.09: That the provincial ombudsman be specifically empowered to receive complaints, to investigate and to make recommendations to MPIC concerning entitlement to or the payment of no fault benefits under part II of the corporation's regulations.

2. Exaggerated Bodily Injury Claims

Claims procedures regarding bodily injuries was not the subject of frequent comment. Related, however, was the suspicion voiced by some that there is widespread fraud by people who make claims for non-existent or minor injuries, and who are paid large sums. That criticism is particularly difficult to assess, because the majority of people who wrote or spoke of it had no direct knowledge of such a case. They had been told of a case by someone who knew of someone else, unknown to them, who had received a large sum.

The concern about exaggerated claims, nonetheless, is one which I expect has validity. I am informed that there are certain kinds of soft tissue injuries, including whiplash, which can be very painful. Assessing how genuine the assertion of pain or discomfort may be in a given case, however, is another matter. There is no easy method of verifying those claims. One person's solution was the abolition of benefits for whiplash. His solution would deprive benefits to those who do suffer, for the sake of defeating the fraud of those who do not. My inquiries of MPIC officials have disclosed that the corporation's special investigation unit does investigate cases of suspected fraud and it takes action where grounds exist. In my opinion, the abolition of benefits for whiplash is not a reasonable response to the problem of exaggerated or fraudulent claims.

XX. WRITE-OFFS

(See Position Papers Nos. 5 and 8)

1. Dispute Resolution

There was more than one concern about written-off vehicles. Some people were dissatisfied with the dispute resolution procedure concerning differences of opinion as to the value of a vehicle.

2. Safety Considerations

A number of people were concerned that written-off vehicles purchased at Autopac auctions were inadequately repaired and returned to the road in a dangerous condition. People were concerned, as well, that there is no mechanism for requiring safety inspections of vehicles brought into this province from other provinces. I was told that, because vehicles may be registered in Manitoba without a safety inspection, Manitoba has become a "dumping ground" for unsafe vehicles from other provinces.

Some people thought that written-off vehicles should be compacted and destroyed. That suggestion discounts the value of those vehicles as a resource for used parts. Also ignored by that suggestion is the fact that some vehicles are written off because of low value, not for severity of damage. Those vehicles may be repaired by proficient home mechanics, though for MPIC it is uneconomical to do so.

It was suggested that re-registration of written-off vehicles, and first-time registration of vehicles from other places, should be prohibited unless a safety inspection program can test them adequately for safety. In those cases, it was urged that re-registration should not be permitted without the production of a vehicle inspection certificate issued by a competent authority.

At one of the meetings I was told that a written-off motorcycle purchased at an Autopac auction was repaired cosmetically and returned to the road, whereupon an accident occurred with disastrous consequences to the driver.

Conclusion: That the return to the road of written-off vehicles without adequate repairs would in some cases pose a threat to safety.

Recommendation A.10: That MPIC and the division of driver and vehicle licensing take such measures as are possible to ensure that the registration of those written-off vehicles, the use of which could be hazardous, be prohibited except upon the production of a safety inspection certificate approved by the registrar of motor vehicles.

3. Motorcycles

I was told on more than one occasion that Autopac adjusters write off motorcycles which have sustained little damage because the adjusters do not have the expertise to estimate the damage properly. The cost of repairs, I was told, was often estimated at far beyond that for which the bikes could be, and were in some cases, repaired and restored to a safe condition.

XXI. SAFETY PROMOTION

(See Position Papers Nos. 2 and 10)

1. Attitudes -- Discounts for Training Courses

It is the impression of some that driving attitudes and driving habits are poor, particularly among the young. It was urged by the Manitoba Safety Council, among others, that MPIC should offer discounted rates to drivers who have passed accredited training courses.

2. Training Methods

The spokesperson of a driver training firm asserted that the corporation's present expenditures on driver education are a waste of money. The commission was told by the representative of this firm that its training methods were superior to the methods of other firms.

3. Motorcyclists

Motorcyclists had particular safety concerns. The Commission was told that high performance motorcycles can be purchased and driven by beginners. Often they are young people who have neither the maturity nor the experience to handle their bikes wisely. Recommendations were made that, for safety reasons, the operation of the high performance bikes should be restricted to those with at least two years' experience in operating motorcycles. Another suggestion was that less experienced drivers be required to install governors on their motorcycles to limit their speed. Without certainty that there is evidence to support the proposition that the combination of high performance motorcycles and inexperienced drivers forecasts extraordinary danger, it is a proposition which on its surface makes sense to me.

I was told that new motorcycles are partly assembled by dealers in Manitoba who may employ unskilled persons for that purpose. A requirement for assembly inspection was urged. The concern, it seems to me is justified.

Recommendation A.11: That MPIC and the division of driver and vehicle licensing, jointly direct a feasibility study of methods to control the use of high performance motorcycles by inexperienced drivers, and publicly report the results.

Recommendation A.12: That MPIC and the division of driver and vehicle licensing jointly direct a study to determine the need for an inspection procedure for the assembly of new motorcycles, take such steps as may be necessary if a need is identified and publicly report the results.

XXII. SALVAGE

1. Facilities

In The Pas, the owner of an automobile repair shop told the commission that there is no recycling facility there, and that in order to obtain a good part from a written-off vehicle it is necessary for him to buy the whole vehicle from MPIC at auction. It was his recommendation that MPIC should, itself, be in the salvage business. It strikes me that, in urban areas outside Winnipeg, second-hand parts are not used because of the problem cited here and that new parts are ordered, though second-hand parts might suffice. A thesis upon the subject of the advisability of MPIC's engagement in the salvage business was furnished to the commission by its author, Brian Frain, and forms part of the commission's background material which may be viewed at the Manitoba Public Archives.

Recommendation A.13: That MPIC investigate the feasibility of establishing regionally-located salvage-recycling operations where it may be economically sound to do so and where no privately owned facility exists.

2. Hot-Line

In Winnipeg, there is a "hot-line" service which may be used by Autopac adjusters and by the repair shops to locate a particular used part from an inventory of parts maintained through that service. A salvage operator in Winnipeg, however, felt that, more often than is necessary, new parts are ordered without prior recourse to the "hot-line" service. If that recycler is correct, MPIC is frequently paying for new parts where less expensive used parts would suffice.
(See Position Paper No. 5.)

XXIII. SUSPENDED DRIVERS

Many presentations to the commission recommended a tough policy for suspended drivers. There is widespread belief that many suspended drivers continue to operate their vehicles unimpeded by the suspensions. A frequent recommendation was that a vehicle owned by a suspended driver should be issued special licence plates identifying his or her vehicle as belonging to a suspended driver. The use of such plates would provide the police with cause to spot check such a vehicle to determine the status of the person operating it. As this is an issue that relates to law enforcement, I have not addressed it.

It was necessary to focus upon those concerns which seemed upper most in the public mind.

XXIV. SUMMARY OF PUBLIC CONCERNS

As directed by its terms of reference, the commission held public meetings and solicited written submissions concerning Autopac and the insurance provided by the Manitoba Public Insurance Corporation. Meetings were convened in ten locations across the province and, in response to an invitation published, many written submissions were received.

In this section of the report, the issues raised by members of the public are summarized. The majority of them are addressed in the position papers which follow. There are references throughout this summary to the position papers which deal with specific issues raised by the public. Some of the issues raised by the public, however, are not addressed in the position papers which follow and, to the extent possible, they are addressed here.

Accountability

(See Position Paper No. 1)

People were upset and felt that they had been deceived by government concerning the financial status of the Manitoba Public Insurance Corporation when sudden sharp increases in both premiums and deductibles for vehicle damage were announced for the 1988/89 premium year. The perception that they had been deceived led to concerns about accountability concerning the corporation itself and the government.

Current Rating Practices

(See Position Paper No. 3)

Members of the public criticized most aspects of the rating groups presently established, including territory rating, vehicle rating and declared use rating as well as rating for merits and demerits, accident surcharges, farm trucks, leased vehicles, commercial trucks and motorcycles.

Insurance Protection Provided

(See Position Paper No. 3)

Motorcyclists considered that basic coverage upon their vehicles should include passenger hazard coverage as does the basic coverage for other vehicles.

Bodily Injury Compensation

(See Position Paper No. 2)

Dissatisfaction was expressed concerning the limited benefits for the seriously disabled.

Delivery and Marketing of Insurance

(See Position Papers Nos. 1, 3 and 4)

The subjects raised in the letters and at the public meetings were: the role of autopac agents, the present system of renewals, methods of financing the payment of premiums, information about coverage, the manner in which agents are appointed, whether agents should have the opportunity to renew drivers' licenses, automation of agency services, information delivered through agents and communication between agents and MPIC.

Vehicle Repairs

(See Position Papers Nos. 1 and 5)

Some people thought the bodyshops were being overpaid. The industry itself claimed that it was being underpaid and that hourly rates were being dictated by MPIC infairly. As well, increase in 1988 deductibles for all perils coverage, the ability to repair damaged glass instead of replacing it, and bodyshop accreditation were subjects of concern.

Towing

(See Position Paper No. 5)

There was criticism of MPIC's practice of awarding towing contracts exclusively to one contractor each for Winnipeg and Brandon. Fairer methods of distributing the towing business were suggested. Towing between repair shops and towing inoperable vehicles to the MPIC compound were also matters of concern.

Review of MPIC Decisions by the Small Claims Court

(See Position Paper No. 5)

Concern was raised as well by a Brandon lawyer relating to MPIC's conduct and practice respecting, a) the legal representation of the parties, in the small claims court b) the corporation's poor communication of its intentions concerning a small claims court decision, and c) the appropriatness of appealing a small claims court decision over a deductible.

Adjusting Vehicle Claims

(See Position Papers Nos. 4, 5 and 8)

There were suggestions that Autopac claims centres were a burden in terms of cost, and that money would be saved by returning to the system in place prior to Autopac. There were concerns as well that Autopac estimators and adjusters were not sufficiently well qualified or skilled to estimate the value of damage to motorcycles and trucks.

Write-Offs

(See Position Papers Nos. 2, 5 and 8)

The public voiced concern about the dispute resolution mechanism concerning the value of written off vehicles, including motorcycles.

Safety Promotion

(See Position Papers Nos. 2 and 10)

The attitudes of young drivers, premium discounts for those who had passed a driver training course and driver training methods are subjects that were raised.

Safety

There was concern by and in respect of motorcyclists particularly relating to the use by inexperienced drivers of high performance motorcycles. There was concern as well about the attitude and sometimes dangerous conduct of other motorists towards the rights to the use of the highway by motorcyclists. The assembly of new motorcycles by unskilled mechanics was also of concern to them. These issues are not dealt with in any of the position papers which follow.

Salvage

It appears that in some areas of the province there are no salvage facilities through which used parts may be recycled. This issue is not addressed by any of the position papers.

Suspended Drivers

Considerable concern was expressed about a perception that suspended drivers continue to drive with impunity. This is an issue primarily of law enforcement, not insurance.

Adhesives Used in windshield replacement

A concern raised which is not addressed in any of the position papers relates to the safety of using adhesives in windshield replacements other than those recommended by the manufacturer. An auto glass firm had concerns about safety and about personal liability in using adhesives authorized by MPIC. The commission was unable to assess this concern directly.

Claims Procedures for Repairable Vehicles

There was a belief by some that MPIC adjusters too frequently assess 50-50 responsibility on both drivers to an accident in order to relieve MPIC of paying the deductible in either case.

This issue is not dealt with in any of the position papers. Random selection evidence of claims files for the year 1986, however, indicate that for that year less than 2 percent of contested claims were adjusted on the basis of a 50-50 apportionment.

No vehicle damage

There was a concern that a person whose vehicle sustains no damage as a result of an automobile accident, but who is found by the adjuster to be 50 percent or more to blame for the accident, is unable to challenge that ruling in the small claims court because his or her own deductible is not in issue. There is a concern also that those whose vehicles sustain damage as a result of a first accident in any surcharge period may decide not challenge the adjuster's ruling, since they are not subject to an accident surcharge.

Carefree Abandon

A newspaper article published during the course of the commission's review reported a particular case alleging that Autopac "throws away our premium dollars with carefree abandon." That case was investigated by the commission.

Claims Concerning Bodily Injuries

There were concerns expressed about fraudulent claims of bodily injuries, particularly soft tissue injuries, and of payment by the corporation on the basis of fabricated claims. The commission was unable to assess that concern. Nor could it concur with the recommendation that the corporation deny benefits for whiplash injuries.

A concern was raised as to the requirements of an adjuster for the medical examination of a claimant. The claimant wished to see another doctor. Because she insisted upon seeing the doctor of her choice, rather than the doctor designated by the adjuster, the application for benefits was not formalized on time, and she was deprived of benefits. I believe she misunderstood her rights.

Safety of Repairs -- Written-Off Vehicles

As well, concern was expressed about the safety of permitting written off vehicles to return to the highway. The commission was unable to assess the latter concern directly, but considers the issue of safety as it relates to the subsequent operation of written-off vehicles to be important.

XXV. SUMMARY OF MAIN CONCLUSIONS

- There is at present no independent public resource through which a claimant for no-fault accident benefits may seek quick resolution of disputes.

- That time limits for the filing of claims for no-fault accident benefits should be subject to independent review in cases where the failure to meet a time limit did not arise out of neglect.

- That the corporation's requirement that glass installers use an adhesive, which is not the adhesive recommended by the manufacturer, gives rise to concern about the safety of doing so, and about the liability of a glass installer in using other than recommended adhesives.

- There is no evidence of an MPIC policy requiring adjusters to apportion liability equally between the parties to an accident, nor that it is a frequent practice for MPIC to do so. The evidence is to the contrary.

- That a newspaper article which reported that Autopac throws away premium dollars with carefree abandon was incomplete and misleading. The unfavourable publicity, however, may not have been entirely undeserved.

- The inability to challenge an adjuster's assessment of responsibility when no claim is involved and the naive failure to do so because no surcharge is assessible can have unfair consequences.

- That MPIC is bound by its regulations to defend an insured who is sued in the small claims court for a deductible.

- That the return to the road of written-off vehicles without adequate repairs would in some cases pose a threat to safety.

- That there is need at some locations in the province for a recycling facility.

XXVI. RECOMMENDATIONS

Recommendation A.01: That the corporation establish, within its territory rating categories, a classification which allows the owner of a vehicle to register it in the territory of its principal use rather than in the territory of the owner's principal residence. (page 7)

Recommendation A.02: That through special risk extensions department -- and jointly where necessary with the division of driver and vehicle licensing -- the corporation develop a greater flexibility to design insurance products or features for special cases. (Page 11)

Recommendation A.03: That MPIC obtain an independent assessment of safety risks which may attach to the use of a glass adhesive other than that recommended by glass manufacturers and report the results. (Page 29)

Recommendation A.04: That as adjusters' assessments of responsibility for accidents may affect the assessment of MPIC surcharges at any time, legislation should be enacted authorizing an appeal to the small claims court, for a declaratory judgement as to the apportionment of fault for a motor vehicle accident. (Page 34).

Recommendation A.05: That if MPIC, in any case, appeals the ruling of the small claims court, it be responsible to pay such reasonable costs as may be incurred by the respondent for the services of a lawyer. (Page 37)

Recommendation A.06: That The Manitoba Public Insurance Corporation Act be amended to relieve the corporation of the responsibility to defend an insured who is sued in the small claims court for the recovery of a deductible on a vehicle repair claim. (Page 37)

Recommendation A.07: That the provincial ombudsman be promoted as a resource for information to people who feel aggrieved by the decisions or directions of an adjuster for bodily injury claims concerning the no fault benefits. (Page 40)

Recommendation A.08: That the provincial ombudsman be empowered specifically to recommend to MPIC the extension of the 20 day limit and 90 day limit, respectively, within which disability benefits and impairment may be claimed, and that The MPIC Act be amended to enable the corporation to comply with recommendations of the ombudsman. (Page 41)

Recommendation A.09: That the provincial ombudsman be specifically empowered to receive complaints, to investigate and to make recommendations to MPIC concerning entitlement to or the payment of no fault benefits under part II of the corporation's regulations. (Page 41)

Recommendation A.10: That MPIC and the division of driver and vehicle licencing take such measures as are possible to ensure that the registration of written-off vehicles, the use of which could be hazardous, be prohibited except upon the production of a safety inspection certificate approved by the registrar of motor vehicles. (Page 43)

Recommendation A.11: That MPIC and the division of driver and vehicle licencing jointly direct a feasibility study of methods to control the use of high performance motorcycles by inexperienced drivers, and publicly report the results. (Page 45)

Recommendation A.12: That MPIC and division of driver and vehicle licencing jointly direct a study to determine the need for an inspection procedure for the assembly of new motorcycles, take such steps as may be necessary if a need is identified and publicly report the results. (Page 45)

Recommendation A.13: That MPIC investigate the feasibility of establishing regionally-located salvage-recycling operations where it may be economically sound to do so and where no privately owned salvage facility exists. (Page 46)

AUTOPAC REVIEW COMMISSION

POSITION PAPER NO. 1

TOWARDS GREATER ACCOUNTABILITY FOR AUTOPAC

Submitted to: Honourable Glen Cummings

Submitted by: Judge Robert Kopstein

AUTOPAC REVIEW COMMISSION

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TOWARDS GREATER ACCOUNTABILITY FOR AUTOPAC

I. THE CROWN CORPORATION

A corporation is a legal entity with an existence and identity of its own, separate and distinct from that of its owners. Its owner holds shares. The Manitoba Public Insurance Corporation is a Crown corporation. The province is, therefore, the corporation's sole shareholder. Like other corporations, however, its legal identity is distinct from that of the province and its government. Autopac, the automobile insurance division of MPIC, supplies basic compulsory universal automobile insurance, as well as optional extension automobile insurance in Manitoba.

Many, if not most, services provided to the public by government such as education, health care and the construction and maintenance of highways are conducted and provided directly through government departments for which a minister of the government is directly responsible. The accountability of those departments is controlled through the legislative process. A Crown corporation such as MPIC, however, is not a government department and is not accountable in the same way as government departments are accountable. A Crown corporation operates independently of the controls by which government departments are regulated. The basis upon which and the mechanism through which MPIC should be accountable is the subject of this position paper.

II. GOVERNMENT OPERATION OF AUTOMOBILE INSURANCE BUSINESS

Governments conduct programs through Crown corporations, sometimes, because those programs are in the nature of commercial ventures (MPIC, Manitoba Hydro and the Manitoba Telephone System) and are expected to be self-sustaining, principally through revenues generated from the premiums or fees or usage charges for the services provided rather than through the government's general revenues raised through taxes.[1] As well, a government sponsored enterprise may be conducted through a Crown corporation because the enterprise itself is so large as to require its own specialized bureaucracy, and because it requires a broader flexibility than that which is possible within the constraints of a government department.

The concept of operating such enterprises through a Crown corporation for separate accounting and separate accountability is therefore logical.

The rationale for the involvement of the Manitoba Government's entry in the field of automobile insurance at the beginning of 1971 has been discussed by political theorists and social scientists. There are several theories as to why governments enter the business sector.[2]

For the present purpose, it is sufficient, I think, to attribute the Manitoba Government's 1971 participation in automobile insurance to its belief that the private sector insurance industry was not adequately or at affordable cost serving the automobile insurance needs of the people of Manitoba.

A further justification is said to be that substantial capital assets may be retained and invested in Manitoba to serve the borrowing needs of Manitoba's institutions and communities, thus avoiding the outflow of interest payments to investors outside of Manitoba. At the same time, investment in Manitoba's institutions and communities serve the corporation's need for long term secure investment income. Concerning these investments, however, it is argued by some that the advantage is illusional, that MPIC's investment in the Manitoba market merely narrows investment opportunity for other Manitoba investors such as the University of Manitoba pension fund.[3]

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[1] Respecting MPIC, there was, however, a period from 1975 to 1978 when it was funded, in part, from the proceeds of a tax on gasoline.

[2] Studying Public Enterprise, Tupper and Doern, Government and Enterprise In Canada, ed. Rea & Wiserman.

III. ACCOUNTABILITY - THE PUBLIC EXPECTATION

Formerly, when private insurers offered a variety of packages of automobile insurance protection under contract in Manitoba, the consumer understood that his or her rights were limited by the contract. To the insured, the private insurance companies were bound only to fulfill their contracts in terms of paying claims for which they were legally responsible. To assure the solvency of those private insurance companies and to assure that they had sufficient assets from which to pay claims, they were required to maintain appropriate levels of reserves and to comply with the requirements of a government-appointed superintendent of insurance.

For the consumer, however, his or her only right was the recovery of losses for which he or she was insured under the contract. That was the only aspect of the private insurer's business for which a member of the public, if insured by that company, would expect an accounting. As between the management of the company and its board of directors and as between the board and its shareholders, issues of accountability were private, and the public, generally, had no right to an accounting. The one exception was that private sector insurance companies were required to report to a superintendent of insurance.

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[3] Regulation of Automobile Insurance: Theory, Practice and Affirmative Approaches, Mason and Cameron, Social Science Division, University of Manitoba Research Ltd.

In contrast, a Crown corporation such as MPIC conducts its business as a public trust in the context of which public accountability is paramount. Unlike private corporations for which the principal issues of accountability are likely to be preservation of capital and profitability, the Crown corporation's obligation to account is more extensive. Because it is government sponsored, MPIC is more than an insurance company; it is often an instrument of government policy. Governments undertake ventures in the nature of trade to address a public policy or a social justice perception of need. Once having done so, however, the people whose needs the initiative was designed to address acquire the right to press for greater equity. Beyond providing insurance coverage, the government's insurance plan is expected to be fair.

People consider that they have a right to expect better treatment from "their insurance company" than they could expect from a private insurer. Social justice issues, which would not be pressed to the same extent with private insurers, become major issues with a public insurer such as MPIC. People who live in the north of the province, for instance, who as drivers are no less careful or skillful on average than drivers in other parts of the province, are required to pay higher insurance premiums. This is due partly at least to harsher weather conditions, higher freight rates and poorer roads, all of which are factors beyond their control, factors for which they cannot be blamed. They believe they are not being treated fairly.

An insurance company in the private sector could justify those higher rates merely by demonstrating the greater cost of claims in the north. Resigned to the business reality, people would live with the higher rates. When the insurance is provided by a government corporation, however, people do not accept so readily the economics of insurance.

Drivers with spotless records for 20 years believe that they would be treated better, in comparison with other drivers in Manitoba, by a private insurance company than Autopac treats them. At the same time they are aware that Autopac has declined since 1983 to rate young male drivers as a class though as a class the young are disproportionately accident prone. That too raises issues of social justice.

I do not in this part comment on the merits of the many issues of social justice that could be raised. I mention them only to point out that there are perceived injustices for which the public is entitled to an accounting. MPIC is entitled to make policy decisions and business decisions, but it is not entitled to be silent or secretive about those decisions.

The public in its relationship with MPIC is entitled to know the policies which dictate lower premiums for some groups while other groups with an equally compelling claim for special status receive no reduction. If the corporation's information systems are not sophisticated enough to permit equitable rating, the public is entitled to know that too.

The public is entitled to be informed of the benefits and costs of initiatives inspired through government policy considerations as opposed to business considerations. That accountability is particularly important for MPIC because it operates as a monopoly supplier. Its customers have no choice. Moreover, a fair comparison of Manitoba's public insurance plan with other plans, both public and private, can be made only when there has been an accounting which includes not only financial information but as well information concerning the relative benefits and costs of those initiatives based on public policy that are associated with the insurance plan. More important, with the absence of full information Manitoba motorists are unable to react to the corporation with confidence and trust.

IV. ACCOUNTABILITY BY WHOM, TO WHOM

For MPIC, there are five distinct levels of accountability which should be addressed:

- First, policy initiatives, social or otherwise, directed by government through legislation, regulation or other means, are the responsibility of the government. Accountability for those directives should be borne by the government through the legislative process.

- Second, the corporation, operating as a separate business entity, is responsible to account to the government in a manner similar to that in which a corporation in the private sector must account to its shareholders.

- Third, the government of the day being ultimately responsible for MPIC must be prepared to lay before the legislature and its appropriate committees an accurate and full accounting of the affairs of the Corporation.

- Fourth, MPIC -- unlike corporations in the private sector -- because it is a public trust -- should have a public reporting mechanism in the nature of a pro-active information service through which the public generally may be informed. Because virtually everyone in Manitoba may be affected by MPIC, it is not necessary to distinguish between its policyholders and the public in general.

- Finally, because of the corporation's monopoly position in the field of automobile insurance in Manitoba, there are segments of the public which depend almost exclusively upon the corporation for their livelihoods. Being a monopoly (a "monopsony"[4] in this context), the corporation's negotiating position in dealing with those segments of the public is disproportionately strong. Given its monopsony position, the corporation should be accountable in terms of the fairness of its dealings with those segments of the public.

V. GOVERNMENT INITIATIVES

It is argued by some that the role of government in the conduct of the business of a Crown corporation should be limited to broad policy statements and that the corporation should have autonomy to conduct its business within the framework of established policy guidelines.

One writer says: "A clearer allocation of public disclosure of the respective spheres of responsibility of corporate management, board of directors, designated ministers, the cabinet and the legislature would seem to be a necessary first step toward a sound accountability system. . . . . The cabinet must be involved in the strategic decisions which set the policy directions for the Crown corporations but it should grant management greater freedom from detailed controls over day-to-day decision-making."[5]

"Policy" however is not easily defined. A writer who discusses the meaning of "policy" says the following:

> "In view of the fundamental importance of the word 'policy' one would think that it had a consistent, well-understood meaning. Unfortunately, that is not so. The word is used so loosely, and in so many different ways, that it means different things to different people. Quite frequently its meaning is described by means of metaphors such as the 'framework' created by government within which private sector initiatives take place. Such architectural metaphors tend to be rather contrived. A framework is by its nature inflexible and permanent whereas policy tends to be more responsive and dynamic. 'Policy' may be easier to understand by looking at what it is not. A policy is not

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[4] Monopsony: The sole or principal purchaser of those goods or services which are available from several competing suppliers.

[5] Uneasy Crowns, The Accountability of Crown Corporations in Manitoba, Paul G. Thomas. P.4

> simply a rule (that is a law); nor is it merely a statement of what would be desirable (that is merely a wish). It is more than a goal, objective, or target: since we speak of 'implementing' policy it implies all of these things, but also the power and the desire to achieve the goal.
>
> "The only comprehensive definition of policy the writer can offer is 'an attitude toward a set of facts'. Since policies cannot be articulated in a factual vacuum, they must be changed in accordance with changing events (this is particularly important in fields with rapidly developing technology). Often the 'facts' relied on are really expert or popular opinions, and these may change too. Thus, the more specific the policy, the more rapidly it is likely to change. A more general policy will have greater durability, but less constraining effect. Also, of course, political attitudes change - often remarkably, from the earlier to the later stages of an electoral mandate. As a result, policies may change with attitudes, even if the facts remain the same.
>
> "It is frankly conceded that the foregoing definition of policy is so general as to be virtually useless . . . . 'Policy' can mean anything from a loose collection of virtually meaningless platitudes to a precise plan. The former has no operational significance, the latter is really a description of the process of implementation of an unarticulated set of value choices. All too often, 'policy' is used to mask an imprecision of thought, an unwillingness or inability to say whether, in the context, the speaker means 'attitude' or 'intention' or 'objectives' or 'plan' - or all or none of the above."[6]

It appears to me that the demarcation line between a policy decision and a decision relating directly to the management of the corporation cannot be drawn easily. In my opinion, the attempt to draw that line is not likely to be productive. Government "policy" may evolve virtually upon a daily basis in response to a variety of political pressures which will arise when the government is seen to be responsible, ultimately, for the insurance plan fostered by it. It should be openly conceded that government has a right to intervene.

The practical considerations of political office demand that the operations of MPIC receive a large degree of public acceptance. However, the fact that government has the right to intervene, should be recognized in legislation and the directions that it gives to the corporation should be clearly identifiable by the public. The responsibility for particular decisions may be otherwise obscured.

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[6] Government Control of Tribunals: Appeals, Directives, and Non-Statutory Mechanisms, Andrew J. Roman, Queen's Law Journal (Spring 1985, 476 at 485)

A model that might be considered is that contained in The Financial Administration Act (an Act of the Parliament of Canada) which provides as follows:

Directives:

99(1) The Governor in Council may on the recommendation of the appropriate minister, give a directive to any parent Crown corporation, if the Governor in Council is of the opinion that it is in the public interest to do so.

(2) Before a directive is given to a parent Crown corporation, the appropriate minister shall consult the board of directors of the corporation with respect to the content and effect of the directive.

(4) The appropriate minister shall cause a copy of any directive given to a parent corporation to be laid before each House of Parliament on any of the first 15 days on which the House is sitting after the directive is given.

Presently in Manitoba, the authority for government's right to direct the corporation is nebulous. Nowhere do the legislative provisions which govern MPIC confer any specific authority upon the minister or upon the government to give directions to the corporation, although it is widely perceived that MPIC has been directed by the government. This perception is confirmed by most of the previous directors and chairpersons whom I have interviewed.[7]

Again, the right of government to intercede is not an issue which I think is in doubt. The exercise of that right, however, does become an issue when, as under present legislation, the authority to do so is not clear and there is public confusion as to whether a decision is that of the corporation or that of the government.

[7] Notes on interviews with former directors and chairpersons.

The confusion, I believe, gives rise to public questions of credibility, to strained relationships between the government and the corporation and to an undermining of responsibility among Corporate officials and staff.

Recommendation No. 1.01: That the government be authorized by appropriate legislative enactment, similar in substance to S.99 of The Financial Administration Act (Canada) to give directives to MPIC.

Recommendation No. 1.02: That any directive so given shall be tabled in the legislature on any of the first 15 days on which the legislature is in session after the directive is given.

VI. ACCOUNTABILITY REQUIREMENTS

The present legislation governing MPIC is contained in two acts, namely: The Manitoba Public Insurance Corporation Act and in The Accountability of Crown Corporations Act. Under the provisions of the latter Act which was passed by the legislature in 1987, a new Crown corporation known as Public Investments Corporation of Manitoba was created. The board of Public Investments Corporation of Manitoba is composed of cabinet ministers. The accountability provisions contained in those two acts relating to MPIC are complex and, in my opinion, confused.

The MPIC board is given the power to direct the management of the business and affairs of the corporation and is obliged to report to the minister. At the same time Public Investments Corporation of Manitoba is empowered to direct MPIC concerning matters of policy and in other important ways to monitor and audit the operations of MPIC.[8] Under those provisions, I cannot ascertain what useful purpose or effective role the board of MPIC itself can have.

[8] The Accountability of Crown Corporations Act, S.20.

Obviously the legislative purpose for the enactment of the accountability act and for the creation thereunder of Public Investments Corporation of Manitoba was to provide the government with an instrument of coordinated political control over Crown corporations, including MPIC. However, the indirect but virtually total control which the accountability act mandates has in my opinion, the potential, if not the expectation, of undermining any responsibility by the board of MPIC and any direct accountability between the officers of MPIC and the board.

In my opinion, whatever external body is established by government to monitor or scrutinize the operations of MPIC, should not have the mandate to control it. The exercise of any control, in my view, should be by official directives authorized by statute through the Minister alone.

Recommendation No. 1.03: That the provisions of The Accountability of Crown Corporations Act which empowers the Public Investments Corporation of Manitoba to direct the MPIC board upon matters of policy be repealed and that the authority to direct the affairs of MPIC be re-vested in the MPIC board.

A. APPOINTMENT OF MLA TO BOARD OF DIRECTORS

The MPIC Act authorizes the appointment of an MLA to the corporation's board of directors. Several people, including former board members, expressed the opinion that no government caucus member should be named to the corporation's board of directors. Those who expressed that view felt that the board should be permitted to conduct its business without a political presence in its midst. Other views expressed favoured -- or at least would have sanctioned -- the appointment of a government caucus member to the board in order to communicate the government's views to the board. A third opinion was that a member of the legislative assembly who was not a member of the government caucus should be nominated to the board.[9]

In terms of accountability, the significance of whether a member of the government caucus serves upon the board of MPIC is an issue only as it affects the ability of the board to function independently of the government. In practice, the ability of the board to maintain an independent role with a government member in its midst will depend upon the strengths of those on the board, and the value they place on exercising an independent role. In theory, unless one considers secrecy to be a factor, the nomination of a government caucus member should not impair the independent deliberations of a strong and competent board. Moreover, the government's vital interest in the affairs of the corporation should entitle it to have its representative upon the board. I would not recommend a deletion of the present enabling section of the act relating to the appointment of an MLA. Nor can I recommend the appointment of an opposition member. Together with a government member, the potential for politics in the boardroom would be too great.

B. MINISTER AS CHAIRPERSON

During several years, the minister responsible for MPIC has served as chairperson of the board of directors. While the act authorizes the appointment of an MLA to the board, there is no specific authority for the minister responsible for MPIC to be appointed as chairperson of the board. The MPIC Act requires the chairperson of its board to report to the minister responsible for MPIC. That requirement suggests a legislative intention to separate the board from the government. To expect the minister, as chairperson of the board, to report on behalf of the board to himself is patently absurd. The option of appointing the minister as chairperson of the board is not expressed in the legislation.

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[9] Notes on interviews with former directors and chairpersons.

Again, while I do not suggest that the minister or the government should be deprived of ultimate control over MPIC through formal ministerial directive, political pressures may dominate a minister and will certainly be seen to dominate the decision-making process of the board where the minister responsible for MPIC is chairperson of the board. Valuable considerations which might otherwise be addressed in the absence of the dominating political concerns of the minister might remain unaddressed.[10]

Recommendation No. 1.04: That *The MPIC Act* be amended to preclude appointment of the Minister responsible for MPIC as chairperson of the board.

VII. DIVISIONS OF RESPONSIBILITY

Legislation by itself cannot guarantee an appropriate separation between the board of MPIC and the government. No legislation can contemplate every situation. Legislative intent may be misinterpreted or ignored. Nonetheless, a legislative structure should lay the framework within which there are clearer divisions of responsibility and accountability between the board and the government than those which now exist. Appropriate legislative provisions, if in place, can provide the standard upon which conduct may be measured.

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[10] To the contrary, the view of one former minister who had also been chairperson was that it is essential that the cabinet minister responsible for MPIC be on the board. It was his view that the corporation found itself in difficulty at times when the government's presence in the decision-making of MPIC was weak.

Recommendation No. 1.05: That the legislative provisions governing MPIC be altered to confer on the board of MPIC clear authority to direct the operations of MPIC, subject to government directives communicated to the board through a process which clearly identifies responsibility for corporate action.

VIII. BOARD OF DIRECTORS

With recognition that:

- The corporation's mandate is to conduct an insurance business, and
- Social policy responsibilities attach to that mandate because it is a government initiative,

the board of directors, through the persons nominated to it, should be capable of directing the corporation and giving it leadership concerning both its business concerns and its social justice concerns. In order to foster that joint capability, the members of the board require varied expertise and experience. The appointments to the board should not necessarily emphasize the diverse social segments of the community in Manitoba. Rather, the appointments should emphasize the talents and the expertise required for the task.

Recommendation No. 1.06: That The MPIC Act be amended to require that the resumes of persons appointed to the board of MPIC be published and be filed in the office of the Clerk of the Legislative Assembly for public access.

A. TERM OF OFFICE

The present legislation provides that board members shall be appointed for terms of three years. If all members serve concurrent terms, it is possible under that provision that the terms of all board members will expire at one time. In order to assure continuity of experience on the board, the legislation should be amended to provide for appointments to be staggered in a commencement year as follows:

- Three directors for three years,
- Three directors for two years,
- Two directors for one year.

Recommendation No. 1.07: That the present legislation be amended to ensure continuity of experience on the board.

IX. THE FUNCTION OF THE BOARD

Presently the function of the board of directors is prescribed:

- To exercise the powers of the Corporation through its employees and agents.
- To direct the management of the business and affairs of the corporation.
- To ensure the corporation obeys the law.
- To cause the corporation to conduct organizational reviews at intervals not exceeding five years; the first review to be undertaken by July 17, 1992.

Of corporate boards, both public and private, it has been said that members attend meetings, eat their lunches, accept their cheques and go home. In an article entitled the Public Sector in Private Enterprise, by Samuel F. Hughes, the author quotes

Senator Jack Austin who was discussing Canadair's problems:

> "But there appears to be a special problem with commercially oriented government-owned corporation boards. This problem is the difficulty directors have in clearly understanding the objectives of the shareholder of the corporation. Inevitably the tendency is to rely on leadership from the one or more government officials who sit on the board. If these individuals appear satisfied, private sector members of the board are likely to assume that management is acting in accordance with government wishes. The fact is, however, that government officials are not engaged, on a daily basis, in business or commercial activities, have many competing demands of public policy on their minds, and have moved frequently in their government careers, so that little continuity has been achieved. The government, in turn, believes that the private sector directors are insuring commercial standards in project management, and the government officials are not inclined to substitute their judgements. Thus, government corporation boards sometimes seem to fail to provide the checks and balances which the board should provide."[11]

For MPIC, it is important to the public interest that the board exercise a function independent of the government by which it is appointed. It is important , as well, that it not be merely the rubber stamp of corporate management actions or inactions.

I accept that, on the one side, government has a vital interest in assuring that public discontent with MPIC in the short term is minimized. At the same time, MPIC management will have a more intimate grasp and sense of the longer term issues and of the business affairs of the corporation than either the board or the government. I accept, also, that a bureaucracy such as that which manages MPIC often has its own interests to serve. The board of MPIC should be able to evaluate those disparate though influential factors and interests objectively in passing upon the business that comes before it.

While the board should be capable of working with management and seeking its confidence, it should not become captive to the will of management. As a mere instrument of either management or of the government, the usefulness of its function is minimized.

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[11] Government and Enterprise in Canada ed. Rea and Wiseman, Methuen 1985. p.75.

To intervene productively and constructively in the affairs of the corporation and to direct the management of the business and affairs of the corporation, as the legislation prescribes, a strong board must have the ability to command the confidence and respect of management.

A. IMPORTANT DECISIONS OF THE BOARD

Under present legislative provisions, the chairperson of the board is required to report to the minister responsible for MPIC. Acknowledging the government's vital interest in the affairs of the corporation and its right to give the board directives, the reporting provision should be strengthened so that reports of the board's activities are conveyed to the minister promptly and so that no material changes are made through board decision unless and until the minister has had the opportunity to review them.

Recommendation No. 1.08: That the present legislation be amended to provide:

o That the chairperson of the board will forward to the minister or his designate, immediately following each board meeting, a description of the business transacted, together with the supporting material for decisions taken, as recorded by the minutes.

*o That no material change or alteration in the substance of insurance products offered, or of the pricing of such products approved at any such meeting, shall be implemented for a period of 15 working days immediately following the minister's receipt of the minutes in which the decision to make any such change is recorded, except on the written consent of the minister.

* (This recommendation contemplates ministerial directives as set out in Recommendations 1.01 and 1.02 above).

B. CHAIRPERSON

The position of chairperson of the board of the corporation should be considered pivotal to proper communication between the minister and the board on the one side and the corporation and the board on the other side. The chief executive officer should be expected to account to the board through the chairperson. The board should be expected to account to the minister through the chairperson and the chairperson should be expected to receive and to communicate written ministerial directives to the board. The chairperson should be able to provide advice and to justify board decisions to the minister. He should be both knowledgeable of business issues and sensitive to social policy issues. He should be capable of providing leadership to the corporation through guidance and advice to the chief executive officer. In appointing the chairperson therefore, it is important that the incumbent have the business credentials, well developed communication skills and the knowledge of social policy issues which will foster the confidence of both the minister who appoints him or her as well as the officials of the corporation whom the board directs. I see no need for any specific recommendation in this regard at present.

X. CHIEF EXECUTIVE OFFICER

In my opinion, the importance of the position of chief executive officer of the corporation cannot be too highly valued. It is his or her strength and talent which can build a productive working unit within the executive offices. It is his or her management capability that can generate among corporate staff a real commitment to meet the challenges of the corporate mission. It is his or her credibility as the spokesperson for the corporation which can inspire confidence in the corporation. It is through his or her initiative that problems may be adequately addressed. It is through his or her analytical skills and ability to lead a team that strategic plans can be developed to meet the challenges of the future. It is through his or her competence and integrity that the board will be provided with information upon which to make knowledgeable and supportable decisions, in most cases without the need for external advice. It is through him or her that the board's directions to management can be implemented promptly and effectively.

Under The MPIC Act, the chief executive officer of the corporation is appointed by the Lieutenant Governor-in-Council by whom his or her salary is also fixed. The chief executive officer is responsible and has authority for the management, direction and control of the operations of the Corporation. The legislation is mute, however, as to whom the chief executive officer is accountable. Nothing in the legislation requires him or her to account to the board.

The fact that he or she is appointed by the Lieutenant Governor-in-Council suggests, in my opinion, that his or her loyalty and his or her source of direction may be the government and not the board of directors. If there is any expectation that the MPIC board should actually exercise its legislative authority to direct the management of the business and affairs of the corporation, it is my opinion that its power and authority to do so is very much weakened by the fact that the chief executive officer is not formally accountable to it.

While members of the public sometimes resent seemingly extravagant benefit packages available to senior executives, it should be understood that to run a corporation the size of MPIC requires much more than ordinary experience and expertise and that there are not a multitude of people available with those qualifications. In order to attract a qualified chief executive officer from the insurance industry, therefore, the benefit package which the board is able to offer must be within the range of salaries paid to such people in the insurance industry itself. That opinion has concurrence among several previous board, government and management personnel.[12]

In the past few years, the corporation has had three different chief executive officers. Each brought with him his own style of management. Each upon taking office had an unsettling effect within the corporation. There is evidence that those frequent management changes were disruptive, had a negative impact upon morale and rendered uncertain immediate objectives and goals. Frequent changes of the chief executive officer are undesirable.

Recommendation 1.09: That the board be required by statute to appoint the chief executive officer at a salary and with employment benefits commensurate with experience and ability.

Recommendation 1.10: That the level of benefits which the board is authorized to offer be within the range of benefits provided to chief executive officers within the insurance industry in Canada.

Recommendation 1.11: That a condition of the appointment of the chief executive officer be his or her firm commitment to remain in the post for at least five years, subject to the power of the board to remove for cause.

[12] Minutes of Meetings etc.

XI. ORGANIZATIONAL REVIEWS

Presently, the MPIC board is required to make the corporation conduct organizational reviews every five years. The act does not stipulate whether such reviews should be performed from within by corporate staff, or from outside the corporation by an external agency. The object of an organizational review should be to expose the strengths and the weaknesses of the various practices and systems which are in place.

Under the leadership of the chief executive officer and the guidance of the knowledgeable pro-active board, it is my belief that the corporation itself should engage in an honest and continuous process of self-assessment and self-evaluation. Independent assessments by external consultants have the advantage of objectivity. They can, however, occupy the staff in large blocks of time to cater to the information needs of the independent consultant. Regardless of cause, they are threatening to corporate officials and staff and disruptive to work schedules. Therefore, unless a need for diagnostic review by an external consultant is identified by the board in consultation with the chief executive officer, or unless the minister directs an external review, the organizational reviews required by the legislation should be internal.

Moreover, it seems to me that conducting organizational reviews at five year intervals as a method of detecting weaknesses in various practices and systems will be less productive than an institutionalized, ongoing, scheduled process of audit and re-evaluation of each function within the organization in rotation over, perhaps, five year cycles. A separate internal audit and re-evaluation component of MPIC should be established with persons trained in the process of organizational audits. That component should perform systematic audits of each function within the organization, following a schedule set by the chief executive officer designed to review the total organization over a period of five years.

Upon the conclusion of the audit performed for each function, the audit component should report its findings and recommendations to the chief executive officer. Each of these should be presented to the board for consideration, and the board in consultation with the chief executive officer should re-evaluate the function which has been the subject of the review.

Recommendation No. 1.12: That the present legislation requiring organizational reviews every five years be amended to require scheduled institutional audits of each function of the organization of MPIC in rotation over five year cycles.

Recommendation No. 1.13: That a component of MPIC be established to conduct comprehensive, internal audits of each function within the organization of MPIC. Among the specific functions to be audited are the following:

- Ratemaking and underwriting.
- Claims administration.
- Information systems.
- Financial administration.
- General administration.
- Marketing and product distribution.

Recommendation No. 1.14: That the component performing the audit, report upon its results and its recommendations directly to the chief executive officer and the audit committee of the board of directors.

Recommendation No. 1.15: That on the basis of the report of every such audit, the board of directors, in consultation with the chief executive officer, re-evaluate the function under review and order such changes as may be necessary to improve the quality of that function.

XII. ACCOUNTABILITY VIS-A-VIS MPIC, ITS SHAREHOLDERS AND THE PUBLIC

A. STRATEGIC INITIATIVES

At its inception in 1971, automobile insurance protection provided by MPIC can be summarized as follows:

1. Basic Autopac

- $50,000 third party liability.
- $200 deductible on all-perils coverage.
- Maximum insured value of $15,000 on trucks, truck tractors, farm trucks, motor homes, trailers, buses and prototype vehicle.
- Death payments of $5,000 to primary dependents and $1,000 to second dependents ($10,000 maximum).
- Permanent impairment payments to a maximum of $6,000.
- Medical expenses to a maximum of $2,000.
- Funeral expenses of $500.
- Total disability payments of $50 per week.

- Partial disability payments of $25 per week.

2. Optional Extension Coverage

- Limits of $100,000, $200,000 and $300,000 on third party liability coverage.

- Deductibles of $100 and $50 on all-perils coverage.

- Excess value coverage to insure vehicles beyond maximum insured value of $15,000.

The corporation lists the following significant changes since 1971:

1975

- Total disability payments increased from $50 per week to $75 per week.

- Optional third party liability limits of $500,000 and $1 million offered.

1979

- Optional third party liability limit of $2 million offered.

1980

- Total disability benefits increased to a maximum of $270 per week.

- Partial disability benefits increased to $50 per week (housewives $35 per week).

- Funeral expenses increased to $1,000.
- Impairment payments increased to a maximum of $20,000.
- Medical expenses increased to $20,000.
- Death benefits increased to $10,000 for primary dependents and $2,000 for secondary dependents (no maximum).

1982

- Basic third party liability limit increased to $100,000.
- Underinsured motorist protection offered as an optional coverage.

1983

- Basic third party liability limit increased to $200,000.
- Total disability benefits increased to a maximum of $300 per week.
- Partial disability benefits increased to $60 per week (male and female).
- Funeral expenses increased to $1,500.

1986

- Age, sex and marital status eliminated as rating and benefit eligibility factors.

1987

- Maximum insured value of $40,000 placed on private passenger cars.
- Medical expenses increased to $100,000.

1988

- Basic all-perils deductible increased from $200 to $350.
- Optional all-perils deductibles increased from $100 and $50 to $250 and $150.
- Excess value coverage for certain types of commercial vehicles removed from basic Autopac plan. Coverage for these vehicles provided through special risks extension.
- Coverage on sound equipment limited to manufacturers' original equipment or its equivalent.
- Comprehensive deductible applied to partial fire losses, which previously were subject to no deductible.

As well, MPIC lists the progress of the service component of its business as follows:

- (1972) Three claims centres constructed in Winnipeg. Claims offices established in Brandon, Dauphin, Portage la Prairie, Selkirk and Thompson.
- (1973) Claims centres established in Flin Flon and The Pas.

- (1976) Claims centre established in Steinbach.

- (1977) Construction of new claims centre in Portage la Prairie completed. Claims centre established in Winkler.

- (1978) Construction of new claims centre in Dauphin completed. Claims centre established in Swan River.

- (1979) Dial-A-Claim system introduced to Winnipeg and Brandon. This system enables claimants to schedule appointments in advance, avoiding possible line-ups at claims centres during busy periods. Dial-A-Claim is now in operation at 12 claims centres and offices throughout the province.

- (1985) Fifth claims centre constructed in Winnipeg.

- (1986) The Judgement Interest And Discount Act, requires the corporation to pay prejudgement interest on certain claims, passed by the legislature.

- Rehabilitation unit is established within the bodily injury claims centre. The unit offers counselling services, referrals to vocational retraining programs and other support aimed at rehabilitating severly injured accident victims.

- (1987) the corporation assumes responsibility for high school driver education, snowmobile and bicycle safety and vehicle inspection programs for passenger vehicles from the Driver and Vehicle Licencing Division.

In the course of the meetings which I held, however, it appears that there are several issues of public concern relating to premiums, coverage and service which should be addressed. To name a few:

- Ratemaking sensitive to risk.
- Lay-up policies for seasonal vehicles.
- Policies for multiple vehicle owners with fewer drivers than vehicles.
- Repair shop accreditation.
- Automation of agency transactions.
- Sufficiency of information systems.
- Staggered renewals.
- Optional collision coverage for older vehicles.
- The increased use of used parts and after-market parts.
- Improved arrangement for premium financing.
- Higher rates for vehicles with PSV plates than for vehicles with CT plates.
- Motorcycle passenger hazard coverage.
- Methods of testing vehicle repair costs.
- High rates for trucks which must register in Manitoba, in comparison to rates paid by

inter-provincial truckers who may register in other provinces and obtain insurance at lower rates.

- Higher mandatory deductibles for trucks and higher liability coverage for trucks.
- Recent exclusion of motorcycle owners from merit reduction.
- Benefit of merit points, not available to some.

It is possible that the corporation may be unable to comply with all public demand or satisfy all concerns. As a public corporation however, its thrust should be consumer oriented. It should respond to consumer demands and consumer concerns either by taking the steps necessary to accommodate the public demand, by publicly explaining any inability to do so, or by demonstrating that a demand is unreasonable or a concern unwarranted. It is not sufficient that a demand from consumers be dismissed because it is unreasonable or impractical, or that for some other reason it is not one to which the corporation can presently accede. The consumer of the products of a public corporation, which is a monopoly, is entitled to an explanation.

The management of the corporation -- through a network of communication with operating staff and through direct communication with its public relations officers -- should be aware of public dissatisfaction as it arises. It should be the function of management to transmit those concerns to the board with explanations and analyses. It should be the function of the board to direct the corporation to undertake such studies and projects as are necessary to determine what actions may be taken to address the public concern. Moreover, it should be the function of the board on its own initiative, to consider means by which Autopac may be improved over time and to direct management to conduct such studies and projects as the board may consider appropriate for that purpose.

Recommendation No. 1.16: That the MPIC board be required by legislation to consider and appraise strategic initiatives relating to all aspects of the corporate mandate and that the board be empowered to direct such changes and alterations in the quality of automobile insurance coverage and service it considers will better meet the public need.

XIII. RATE INCREASES

Frequently during the commission's public meetings, people voiced their wish for independent public scrutiny of Autopac rate increases. Underlying that wish was a suspicion that somewhere, either within the corporation itself or within government there was serious mismanagement and suppression of facts about the corporation's 1987 $62.5 million loss until the last moment. The people felt as well that the government's eleventh hour effort to soften the impact of its 1988 rate increase through merit point reduction was clumsy and unbusinesslike, even though the reduction was helpful to many.

People saw the merit reduction program as a kind of political manipulation. They urged future public scrutiny of rate increases, not so much to challenge the increases themselves, but rather as a vehicle through which to test the corporation's efficiency in managing Autopac, and as a method through which to expose suspected weaknesses within the political or professional management of MPIC. Many advocated approval of Autopac rate increases by the Public Utilities Board (PUB).

A. THE PUBLIC UTILITIES BOARD

The Public Utilities Board is established by statute under The Public Utilities Act.[13]

At present, the PUB in my opinion lacks jurisdiction to entertain applications respecting MPIC rate increases because MPIC would not be considered a "public utility" within the meaning of that act. That difficulty, however, is not critical since acts of the legislature may be amended.

In a paper [14] prepared for the commission on the subject of regulation, the authors mention other agencies that could scrutinize Autopac rates and services. One suggestion was the establishment of a permanent Autopac Review Commission. Another suggestion was the establishment of a separate government department. Neither of those options is favoured by the authors of that report. Nor do I favour them. The Public Utilities Board has a good measure of public confidence. It has experience reviewing rates for other Crown corporations such as Manitoba Hydro and the Manitoba Telephone System, and has demonstrated the capacity to decide on technical ratemaking issues. As well, there is precedent in Canada for the utilization of public utilities boards to regulate automobile insurance rates. Insurance rates are now regulated by public utilities boards in New Brunswick and Newfoundland. In those provinces the boards regulate private insurers through the establishment of "benchmark" rates for each category of automobile insurance coverage. Within those benchmarks, insurers may increase their rates without special application to the boards. If proposed rate increases exceed those benchmarks, however, the insurer must seek approval.

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[13] The Public Utilities Board Act, RSM 1987, Chapter P280.

[14] Regulation of Automobile Insurance: Theory, Practice and Alternative Approaches. Mason and Cameron, University of Manitoba Research Ltd., June 13, 1988, Page 30.

As a result of my discussion with the chairperson of the PUB [15] I believe the board could accommodate reviews of Autopac rate proposals. That process would foster the need for greater accountability by the corporation because public awareness of ratemaking issues would be enhanced. As well, since any application to the board would require demonstration of how the rates are developed, the process would probably improve the corporation's rate planning and its ability to explain them.

B. POWER OF THE BOARD

The Public Utilities Board can be effective whether it serves to review rate proposals and to report its findings, or to review rate proposals for the purpose of approving or varying those rates. However, if the PUB were required to approve rate increases before they could be implemented, it would require some four to five months in order to conduct a review. Prior to that, the corporation itself would require some four months to prepare the rates for that review. The final setting of rates under the present system of annual renewal would have to be concluded at least three months in advance of the renewal date. That process therefore, would require the corporation to begin to develop its rate proposals for the insuring year almost a year in advance of their implementation.

To require a PUB approval of rate increases before

[15] Notes on interview with Mr. Ed. Robertson, Chairperson, Public Utilities Board.

implementation would deprive the corporation of some of the most relevant information needed to assess loss figures for the current year and to use that assessment in projecting the needs for the following year. For as long, therefore, as the corporation continues its annual renewal policy for everyone upon one date, it should not be required to seek the approval of the PUB before changes in rates are implemented; rather the PUB should be a reviewing agency.

In itself, public scrutiny of MPIC's ratemaking policies and practices through the PUB will make MPIC accountable for those ratemaking policies and practices which support the setting of premiums. The benefits of PUB scrutiny of ratemaking policies and practices can be twofold:

(1) its public disclosure of MPIC's ratemaking practices and

(2) its findings upon issues of fairness.

Two factors should be touched upon briefly:

1. Cost of PUB Reviews:

It is estimated that the start up costs for the first PUB review could be as much as $1 million, The cost of subsequent annual reviews could approach $500,000. With a population of some 630,000 drivers in Manitoba, the start-up expense would cost each driver approximately $1.60 and subsequent annual reviews would cost approximately $ .80 per driver. Considering the expected benefits of PUB scrutiny, the cost, while significant, is not unreasonable.

2. Responsibility for Ratemaking:

Using the PUB to review the Autopac ratemaking policies and practices has potentially negative ramifications. If review by PUB meant, in effect, that the decision for setting rates was made by the PUB, MPIC might abdicate its primary responsibility for that task. The scope of the PUB's authority, therefore, should not make it the ratemaking authority. Nor should its authority enable it to substitute its judgement for that of MPIC. Its primary role should be that of an independent and objective critic. It should, as well, be authorized to receive individual grievances of unfairness in the premium structure, to examine those grievances and to comment upon them. Upon information provided by MPIC, the PUB should be required to examine the corporation's ratemaking and pricing decisions. It should be empowered to call upon MPIC to explain and to justify those decisions. Its proceedings should be public and it should be required to publish a report of its findings.

3. The Establishment of Appropriate Ratemaking Practices

Based upon research conducted for the commission by one of its consultants[16] on ratemaking and premium pricing, the commission in its Position Paper No. 4 observes that the corporation does not now fix rates that actuarially correspond to its loss experience for classes within particular rating groups. It now sets the premiums for a vehicle according to its age, the manufacturer's list price and the use declared by its owner, such as preferred, all purpose, business or farm truck. Insufficient effort is made, however, to

[16] Coopers and Lybrand Report.

develop, within those vehicle categories, a statistical plan as to actual losses incurred among classes within the major categories. This information would permit the setting of premiums which correspond more accurately to the losses incurred within those individual vehicle categories. Only by identifying and developing a data base of discrete loss experience, can the corporation identify the inequities within the present rating categories, and ultimately adopt fairer ratemaking practices.

The main initiatives in experience-based rating by the corporation commenced in 1971. In 1975 and 1988, other experience-based factors were added. Through demerit points in 1971, additional premiums were levied. In 1975, the accident surcharge was added. In 1988, merit points reduced premiums on both drivers' licences and vehicles.

The rating system implemented at the inception of Autopac has one strength, particularly for a monopoly insurance plan. It makes automobile insurance more affordable for those in the higher risk classes while penalizing only slightly those in low risk classes. There are inequities, however, within the MPIC rating structure which cannot be ignored. I believe that the corporation should utilize loss experience data to adjust rates within the various rating categories so that premiums will correspond more closely to the actual loss experience of classes within those categories.

I am advised that the corporation cannot overnight develop the ability to set rates based on loss experience. I understand it may take the corporation at least two or three years to develop the information base and the skill necessary. During that period, the PUB may play its most important role: to monitor and to comment upon the corporation's advancement in its ratemaking skills and its progress in reducing inequities which are presently systemic.

4. PUB Role While Autopac Ratemaking is Being Reformed

The commission has recommended a fundamental change in the philosophy under which the corporation sets its rates. If over time, premiums are to bear a more constant relationship to claims costs, major adjustments will be needed. Based upon an analysis of the corporation's loss experience, I have been informed that some rates would have to be reduced by one half or more while others might have to be increased several times. Some of the anomalies may relate to social policy or social justice considerations. Adjustments should not be introduced suddenly but should be studied and phased in over a period of years. During the transition to experience-based rates, the role of the PUB should be required to review the proposed implementation of new ratemaking policies and practices in terms of the fairness of those proposals as they relate to actual loss experience and as they relate to the classes affected.

At the same time it will be necessary for the PUB to be cognizant of government policy directives and corporate policy which may in some cases negate the implementation of ratemaking based upon actual loss experience. The corporation's ratemaking may incorporate such policy factors. Though the PUB should be permitted to comment upon the fairness of those factors, it would be expected to respect them.

Recommendation No. 1.17: That legislation be enacted requiring the corporation to submit ratemaking policies and practices to the Public Utilities Board annually for a period of at least three years. The PUB should be empowered to extend that period to five years. The responsibility of the PUB should be to assess critically the corporation's ratemaking proposals in each year, and to publish a report of its findings.

5. The Years Following

Following the initial three to five year period, during which time the corporation should have developed a new ratemaking ability, comprehensive annual reviews by the PUB should not be necessary. However, there should be a mechanism whereby a review would be required where there are objective indicators of ratemaking problems. As well, there should be access at any time to less formal reviews by the PUB which may be triggered by specific complaints from individuals. Finally, there should be periodic general reviews.

It has been suggested that if the rates for any particular class increase above the rate of inflation or beyond the rise in the Consumer Price Index over the period of a year, the increase should trigger the mechanism of review by the PUB. However, an increase or decrease in insurance rates may have little or no relationship to the rate of inflation or to the Consumer Price Index.

While projecting estimates of future claims as a basis upon which to price insurance premiums is a highly skilled professional insurance function, it is, nonetheless, as much an art as a science. No one can predict with certainty what a future year will bring. With recognition of that fact, the commission, with the assistance of its consultant on ratemaking[17], identified an indicator which, it believes, will be evidence of the likelihood of problems with the corporation's ratemaking and pricing policies and practices. In my opinion, PUB reviews should be required in any of four circumstances:

i. In the event that any two-year underwriting ratio, in aggregate for basic Autopac, is less than 90 percent or more than 110 percent.[18]

ii. In the event that any two-year underwriting ratio for any single class of insurance in basic Autopac is less than 85 percent or more than 115 percent.

iii. In the event of the submission to it, at any time, of individual grievances relating to the fairness of rates. This review would be formal only in the event that the PUB, in its discretion, decided to hold public hearings, and to call upon MPIC formally and publicly to account.

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[17] Coopers and Lybrand, letter August, 1988.

[18] The "two year underwriting ratio" is the ratio of net claims incurred for the statement year plus underwriting expenses incurred for the statement year plus net claims incurred for the prior year plus underwriting expenses for the prior year to the net premiums earned for the statement year plus net premiums earned for the prior year.

iv. At the termination of any three year period, a mandatory review of ratemaking policies and practices be undertaken for every major class of risk which has not been the subject of a PUB review or external organizational review within the previous three years.

Recommendation No. 1.18: That the PUB be required to conduct a review of the corporation's ratemaking policies and practices if any two-year underwriting ratio, in aggregate, for basic Autopac, is less than 90 percent or more than 110 percent.

Recommendation No. 1.19: That the PUB be required to conduct a review of ratemaking policies and practices if any two-year underwriting ratio, for any class of insurance in basic Autopac, is less than 85 percent or more than 115 percent.

As the underwriting ratio above referred to may be affected by the corporation's allocation of loss reserves, I believe that the integrity of the underwriting ratio would be preserved better if loss reserves were actuarilly certified each year.

Recommendation No. 1.20: That the corporation's loss reserves should be actuarily certified each year.

Recommendation No. 1.21: That the PUB should be empowered to consider individual grievances submitted to it concerning MPIC rates for basic Autopac. Upon receipt of any such grievance, the

PUB should have the discretion to deal with the grievance without formality and to publish its findings, or to call upon MPIC to account publicly, in open forum, concerning the grievance.

Recommendation No. 1.22: That once in every three years, following the period contemplated in recommendation 1.18, the corporation should be required to submit to the scrutiny of the Public Utilities Board its ratemaking policies and practices which have not been the subject of review within the previous three years, and the PUB should be required to assess those policies and practices and to publish a report of its findings.

XIV. PUBLIC REPORTING

A. THE GENERAL PUBLIC

Presently, MPIC publishes a glossy annual report, the narrative of which, for the most part, extolls the corporation's accomplishments. The financial statements are audited and declared by an independent auditor to have been prepared in accordance with generally-accepted accounting principles. They show revenues, expenses, profits and losses and they provide comparisons with previous years. In some years there are graphic representations of how the premium dollar is allocated for various claims and administration costs.

MPIC's annual reports show consistently low administration costs. By comparison with insurers in the private sector, MPIC's administration costs are significantly lower. MPIC's administrative costs compare favourably, as well, with those of other public insurers, according to the corporation's comparisons.

While the information contained in the corporation's reports is useful it is not sufficiently informative. It does not include material which would inform the reader sufficiently

- Of developing trends.
- Of the corporation's long term plans.
- Of the corporation's strategic initiatives.
- Of the loss projections upon which premiums were based as compared to actual losses.
- Of the corporation's policy or the government's policy (by which the corporation is bound) relating to cross subsidies between rating classes.
- Of explanations for apparent rate inequities.
- Of automobile insurance profits or revenues which are credited to the general insurance division of the corporation, and why. (ie. special risk extensions)
- Of the extent to which premiums are ceded for risks reinsured under treaties of reinsurance and the amounts of premiums ceded.
- Of the rationale upon which the corporation enters into such treaties.
- Of the loss experience for each of the major rating categories: vehicle groups, territories and declared use.

- Of what portion of MPIC's investment portfolio is derived from the Autopac Division as distinguished from the General Division.

- Of what portion of investment income is attributable to the Autopac as distinguished from the General Division.

- Of the proportion of drivers who pay additional premiums and surcharges based on demerit points for driving infractions and for at-fault accidents.

- The inequities implicit in the merit/demerit program and the remedies, if any, being considered by the corporation to enhance fairness.

- Of the amount of additional revenue the corporation receives as a result of those additional premiums and surcharges.

- Of the rationale upon which additional premiums are charged for highway traffic infractions and the results of any studies or research which demonstrate a relationship between highway traffic infractions and insurance losses.

- Of the degree to which losses may be attributed to mechanical failure (unsafe vehicles) as opposed to human error.

- Of repair costs and the factors relating to those costs.

- Of the nature of the salvage operations.

- Of the extent to which used parts are employed instead of new parts.

- Of the impact and expected impact of new developments in automobile construction on repair costs.
- Of the value of claims paid for bodily injuries (aggregated for third party liability and accident benefits) and the value of claims paid for property damage.
- Of how the corporation performs its ratemaking and prices the premiums charged.
- Of the frequency that the corporation has investigated and successfully prosecuted suspected fraudulent claims.
- Of the number of accidents recorded where an at-fault driver was suspended.
- Of the number of claims recorded where the drivers of one or more of the vehicles was convicted of a drinking/driving offense.
- Of the proportion of total claims which arose out of accidents involving a driver convicted of a drinking/driving offense.
- Of how repair shops in Manitoba are remunerated by comparison with repair shops in other provinces.
- Of the basis upon which towing contracts are negotiated.
- Of the basis upon which agents are paid.
- Of the policies relating to the Corporation's adjusting practices.

These are some of the questions which if addressed each year or from time to time in annual reports would help to inform the public and negate feelings of distrust. That they might precipitate public debate is to be expected. The possibility of critical comment is a reason for obliging a public corporation to provide such details. MPIC must be able to justify what it does. In the event that the corporation does not have the capacity, presently, to segregate the statistics necessary to provide all such information, that capacity should be developed.

Recommendation No. 1.23: That the corporation's annual report be broadened beyond its present scope to provide the public with information upon all aspects of its business operations.

The legislation in place[19] at this time requires the senior management of the corporation to hold annual public meetings to explain the objectives of the corporation, to receive suggestions from members of the public regarding the improvement of service, and to receive and investigate complaints. In my opinion, that requirement will engage corporate officials, with other pressing responsibilities, in a time-consuming, often unproductive exercise. That the public should have a vehicle through which to express its suggestions, concerns and grievances with the assurance that it will be heard, is not in question. I think, however, that the role envisaged in this report for the PUB, together with proactive outreach initiatives by the corporation's communications officers, monitored by the chief executive officer can better address and respond to public concerns, suggestions and grievances. The corporation should explain its objectives in the annual Autopac Guide and in its annual reports.

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[19] The Accountability of Crown Corporations Act, S.12(2)

Recommendation No. 1.24: That the present requirement for annual public meetings be repealed.

Recommendation No. 1.25:

- That the corporation solicit advice, suggestions and complaints from members of the public and that a fair and objective summary of them be published annually.

C. THE SUPPLIERS OF SERVICES

As MPIC is a monopoly in respect to the basic automobile insurance market in Manitoba, with the result that the residents of Manitoba must buy their basic automobile insurance from it, so MPIC is the major source of business for some of its suppliers of materials and services. In relation to those suppliers, the corporation is a monopsony*. Just as the corporation owes a special duty to be fair to the general public since it is a public corporation and a monopoly, so it owes a special duty to be fair to the suppliers of services in relation to whom it is a monopsony, because MPIC alone constitutes their market.

Included in a monopsony relationship with MPIC are those engaged solely in vehicle repairs and, to a lesser degree, towing contractors and agents who sell Autopac. Respecting the latter group, I have been made aware of one allegation of unfairness by the corporation. It relates to the complaint of the Manitoba Motor League that its applications to serve as an Autopac agent have been refused by the corporation. Other issues may arise as well, when automation and its costs are addressed by the corporation and its agents. Also, other issues may arise from time to time.

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* See footnote #4, page 7.

In terms of fairness, the towing industry presents a special problem. The majority of towing firms are excluded from the benefit of MPIC work in Winnipeg and in Brandon because the corporation awards contracts for its work to only one firm in each centre. Its reasons for doing so are reviewed in Position Paper #6 of this report. The excluded firms, however, argue that, in fairness, a public corporation should make it possible for a larger segment of the industry to share the work.

More than any other supplier of services, vehicle repair shops in Manitoba are dependent upon MPIC. Unlike the employees of MPIC who are represented by a union and have bargaining power, the independent repair shops have virtually no bargaining power. They are largely at the mercy of MPIC. Unregulated, the relationship between MPIC and the repair shops fosters an atmosphere in which MPIC may, with impunity, dictate its terms to the repair industry. It is not suggested here that MPIC has been unfair with the repair industry in terms of setting labour rates and charge-out rates. Indeed, the commission's research information[20] indicates that Manitoba's labour rates are the fourth highest in Canada. Nonetheless they are behind other provinces with public insurance plans. It is fair to note, however, that until 1988 MPIC maintained a $200 basic deductible on vehicle repairs after the deductibles in other provinces had increased. The low deductible in Manitoba would have generated greater volume of repair business. That the industry remained profitable is indicated by the fact that over the years, according to a spokesperson for the Automotive Trades Association, the number of repair facilities have not diminished, but increased.

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[20] A Report To The Autopac Review Commission - Vehicle Repairs, July 1988. Woods Gordon Consultants.

The issue here is not whether MPIC has treated the repair industry or the towing operators or the agents unfairly. The issue is whether, because MPIC is the major consumer of services from them, they should remain without recourse when they believe that the corporation is not dealing with them fairly or in good conscience. These suppliers of services will never have a constituency of public support for their cause. In my opinion, where negotiations fail, there should be a mechanism for an independent assessment of fairness.

It would be naive and foolish to suggest that MPIC should not conduct itself in a businesslike manner or that it should not derive benefit from its competitive advantage. As a public corporation, however, it should not be permitted to use the strength of its position to discount or to treat with indifference those who deal with it as suppliers of services or, indeed, as consumers.

The Automotive Trades Association has suggested that the labour rates and chargeout rates for its industry be set by the Public Utilities Board rather than by the corporation.

In my opinion it is still the obligation of the automotive trades to negotiate with the corporation for the rates it believes to be reasonable. However, in light of the special relationship between MPIC and those who are or may be its suppliers I think that recourse to the PUB to assess claims of unfairness has merit.

Concerning the complaint of the Manitoba Motor League, it is my understanding that MPIC's policy concerning agents is to appoint applicants (as far as is possible):

- who are engaged in business primarily as insurance agents and
- whose business location is situated to serve a specific area that would not otherwise be adequately served.

I am informed that the Manitoba Motor League does not come within either criterion. I am unable, therefore, to find a basis upon which to criticize MPIC policy in this regard. Beyond the MPIC policy, it is my understanding that because of the Manitoba Motor League's very large membership across Manitoba, MPIC is of the view that it would have an unfair competitive advantage. Nevertheless, if the motor league feels that it is unfairly treated in this regard, it should have recourse to the judgement of an independant arbiter.

Recommendation No. 1.26: That the Public Utilities Board be empowered to consider and review complaints of unfair or unconscionable treatment by the corporation respecting Manitoba industries which supply services to the corporation or are in a position to do so and, further, that the board be empowered to submit such recommendations for remedial action to the minister responsible as the board considers just.

1. Fundamental Changes Affecting Suppliers of Services

Upon the introduction of Autopac insurance in 1971 the basic deductible for passenger vehicles was $200. Under optional extension coverage the deductible could be reduced to $50. Though the affects of inflation increased the costs of repairs significantly beyond the 1971 levels between its inception and 1987, the deductible remained the same. As inflation devalued money, the greater was the benefit to the motorist who could have his or her vehicle repaired in 1987, for instance, at the same price, in terms of out-of-pocket dollars, as he or she would have paid in 1971.

One of the effects of retaining the same deductible level through the inflation of the 1970s and early 1980s was , I believe, that the volume of vehicle repair work increased. That increase probably encouraged both expansion of existing repair facilities and the proliferation of new ones.

The sudden increase in basic and extension deductibles for 1988 was a shock to the industry. It has probably caused a reduction in the volume of repair work in the province. Motorists whose vehicles had suffered comparatively minor damage prior to the increase in deductibles would likely have had their vehicles repaired at the bargain out-of-pocket cost to them. The low deductibles would have encouraged high volume repairs. At the higher deductibles many may not have minor damage repaired.

Again, because MPIC is a public corporation, it must consider the effect of its decisions upon those in the private sector who, because there is no choice, must depend upon it. In my opinion, it would have been fairer to the repair industry and not unfair to the motorist to have increased the deductibles for vehicle damage proportionate to the rate of inflation gradually during the years since 1971. By increasing the deductibles suddenly and significantly in 1988, the corporation was unacceptably insensitive to the automotive trades industry.

Recommendation No. 1.27: That future increases in deductibles should be periodically adjusted in parallel to significant increases in the rate of inflation.

C. THE PURCHASER OF AUTOPAC INSURANCE

MPIC has published an informative booklet entitled Autopac 1988 Insurance Guide. Similar booklets have been published for several years. The 1988 booklet summarizes well the various insurance coverages provided under Autopac. It is readable, precise and provides answers to many of questions which will most commonly arise. In the course of the commission's meetings with the public, however, it appeared that the booklet has not been well circulated and some people complained that they could not readily obtain information about the insurance which they had purchased.

Private sector insurers provide each insured with an "insurance policy". It is not necessary, in my opinion, that a similar form of policy be adopted to Autopac coverage. The evidence that one is insured in Manitoba is his driver's licence and registration certificate. It is important however, that information concerning that coverage, its extent, its limitations and any exclusions be easily accessible.

Recommendation No. 1.28: That the annual Autopac Guide published by the corporation be included with the documents received from the MPIC or an agent upon the issue of every vehicle insurance policy.

1. The Drivers Licence Premium

During the course of the public meetings it became evident, as well, that people wondered about the premium included with their drivers' licences. Some were told that it covered their accident benefits. I take this to mean the benefits accorded under Part II of the MPIC regulations: no-fault, disability, death and dismemberment benefits. The driver's licence provides no evidence of that suggestion and it appears doubtful that there is any relationship between the loss experience of the corporation in respect of those benefits and the premiums charged as an add-on to the driver's licence. The 1988 insurance guide advises the reader on page 44 that "A basic premium of $35 shall be paid by all Manitoba-licenced drivers." The booklet then proceeds to describe the additional premium assessments for the accumulation of demerit points. In my opinion, the booklet would do a service to the public if it explained what, if any, specific coverage the $35 insurance fee on the driver's licence provides. If the driver's premium is merely one of the sources of revenue to finance the total Autopac package, that fact ought not to be hidden.

Recommendation No. 1.29: That information relating to the allocation of the $35 insurance fee attached to drivers' licences be added to the annual Autopac insurance guide.

2. Registration Certificate/Insurance Certificate

The vehicle registration certificate issued upon the registration of a motor vehicle is also an insurance certificate. That certificate sets out the total cost of the basic coverage purchased opposite the vehicle use designation (i.e., preferred, all purpose, business, farm truck, etc.). The basic coverage includes accident benefits provided by the plan, all perils coverage with the maximum deductible, and third party liability coverage to a limit of $200,000. However, neither the card, nor any other source of which I am aware segregates the portions of the premium which pay for the different insurance protections provided.

The premiums now bear no demonstrable relationship to the costs of providing particular types of coverage, and it appears that MPIC does not have the capacity for such separate disclosures. That capability, however, can be acquired and, in my opinion, should be developed both for experienced-based ratemaking and for the ability, forthrightly, to disclose to Manitoba motorists what they are paying for each element of insurance which they purchase.

The present system lumps everything together. It makes it impossible, for example, for the owner of an older vehicle valued at perhaps $500 to determine what portion of that premium is protecting his or her $500 investment. Bearing in mind a $350 deductible, $15 might not be objectionable, but $50 or more for a maximum benefit of $150 would not be reasonable. The point I make is that the owner of that vehicle is entitled to know how his or her premium is allocated.

Recommendation No. 1.30: That the corporation develop the capability to provide segregated information as to the allocation of premiums paid for the various different risks which the basic premium insures (if that ability is not presently within the corporation's grasp), and that the vehicle registration/insurance certificate be redesigned to provide that information to the purchaser of basic Autopac insurance.

XV. SUMMARY OF MAIN CONCLUSIONS

The Manitoba Public Insurance Corporation operates independently of the controls by which government departments are regulated. The basis upon which and the mechanism through which it should be accountable are is the subjects of this position paper.

The accountability requirements of a Crown corporation such as The Manitoba Public Insurance Corporation are much more extensive than those which apply, normally, to the accountability of private corporations. MPIC is accountable to its sole shareholder, the province of Manitoba through the government. It is accountable to the legislature, through the legislative process. It is accountable to the motorists of Manitoba, not only for the payment of claims, but, as well, for the policies under which it conducts itself and for the efficiency with which it operates. The public is entitled to be informed of the benefits and costs of initiatives inspired through government policy considerations as opposed to business considerations.

For MPIC there are five distinct levels of accountability which should be addressed.

- First, policy initiatives, social or otherwise, directed by government through legislation, regulation or other means, are the responsibility of the government. Accountability for those directives should be borne by the government through the legislative process.

- Second, the corporation, operating as a separate business entity, is responsible to account to the government in a manner similar to that in which a corporation in the private sector must account to its shareholders.

- Third, the government of the day being ultimately responsible for MPIC must be prepared to lay before the legislature and its appropriate committees an accurate and full accounting of the affairs of the corporation.

- Fourth, unlike corporations in the private sector, MPIC, because it is a public trust, should have a public reporting mechanism in the nature of a pro-active information service through which the public generally may be informed. Because virtually everyone in Manitoba may be affected by MPIC, it is not necessary to distinguish between its policyholders and the public in general.

- Finally, because of the corporation's monopoly position in the field of automobile insurance in Manitoba, there are segments of the public which depend almost exclusively upon the corporation for their livelihoods. Being a monopoly, the corporation's negotiating position in dealing with those segments of the public is disproportionately strong. Given that strength, the corporation should be accountable in terms of the fairness of its dealings with those segments of the public.

While it has been suggested that the government should intervene in the business affairs of a Crown corporation such as MPIC only within the framework of established policy guidelines, the demarcation line between a policy decision and a decision relating directly to the management of the corporation cannot easily be drawn. The attempt to restrict government participation through the enunciation of broad policy guidelines is unproductive. It must be recognized that government has the right to direct the affairs of the corporation.

The exercise of the right to direct the affairs of the corporation is a contentious issue when its authority to do so is not clear and when there is public confusion as to whether a decision is that of the corporation or the government. The confusion has given rise to questions of credibility, to strained relationships between the government and the corporation and to an undermining of responsibility among corporate officials and staff.

The power of The Public Investments Corporation of Manitoba which was incorporated in 1987 under the provisions of The Accountability of the Crown Corporations Act seriously undermines the power and authority of the MPIC board of directors and confuses both responsibility for the affairs of MPIC and accountability concerning its operations.

It is appropriate that the government be empowered, as it presently is, to appoint an MLA to the MPIC board of directors.

The practice of appointing the Minister responsible for MPIC as chairperson of its board of directors is inappropriate. Presently there are insufficient legislative guidelines for division of responsibility between the government and the corporation.

The membership of the board of directors should possess the joint capability to address both the business concerns and the social policy concerns of MPIC. The appointments to the board should not necessarily emphasize the diverse social segments of the community in Manitoba, but rather the talents and the expertise required for those tasks.

Currently, the terms of office of all members of the board of directors may terminate at one time. In the corporation's own interests and in the interests of those whom it serves, continuity of experience and knowledge relating to the operations of MPIC should not be broken.

The most important function of the board, as articulated in The MPIC Act, is "to direct the management of the business and affairs of the corporation". For the productive fulfillment of that function, the board must recognize the disparate interests represented by the government, on one side and the corporate bureaucracy on the other side. To maintain its integrity as an independent board it must be able to evaluate those factors.

It is essential that the board, independently of the government, exercise its function. It is equally essential, acknowledging the government's vital interest in the affairs of the corporation and its right to give the board directives, that the minister responsible for MPIC be advised of any important decision made by the board. That advice is necessary to enable him or her to react to any such decision by appropriate formal directive should he or she consider it to be in the public interest to do so.

The chairperson of the board of directors occupies a vital position as between government and the board on one side and the corporation and the board on the other side. I see no need for any specific recommendation concerning the chairperson at present.

The importance of the position of chief executive officer cannot be too highly valued. While the public may resent seemingly extravagant benefit packages made available to senior executives, it must be understood that to manage a corporation the size of MPIC requires more than ordinary experience and expertise and that few people can be expected to meet the qualifications necessary for the position of chief executive officer.

Presently, The MPIC Act is silent as to whom the chief executive officer is accountable. He or she is appointed by the Lieutenant Governor-in-Council. It is logical to believe, therefore, that his or her source of direction may be the government and not the board of directors. If the board of directors is to exercise the legislative authority to direct the management of the business and affairs of the corporation, it cannot properly be expected to do so unless the chief executive officer is accountable to the board.

Frequent changes in senior management are disruptive. Recent changes had a negative impact upon morale within the corporation, and rendered uncertain the immediate objectives and goals of the corporation.

The MPIC Act presently requires the corporation to conduct organizational reviews every five years. The act does not specify whether the organizational reviews should be external or internal. Reviews should be internal, unless a need for diagnostic review by an external consultant is identified by the board in consultation with the chief executive officer, or unless the minister directs an external review.

Organizational reviews at five year intervals, moreover, will be less productive than an institutionalized, on-going, scheduled process of audit and re-evaluation of each function within the organization in rotation over, perhaps, five year cycles.

Since 1971, the year of its inception, the corporation has made significant strides in the improvement of its insurance product as well as in its service component. Several if not many issues of concern remain to be addressed.

One of the functions of the board should be to direct the corporation to undertake such studies as are necessary to determine what actions may be taken to address the expression of public concern.

To monitor the ratemaking policies and practices of MPIC, review by the Public Utilities Board is appropriate.

Because of a significant time factor implicit in a public utilities board approval of actual rate increases, the corporation's ability to estimate, accurately, its needs for an ensuing year, could be seriously prejudiced. Prior PUB approval of rate increases is not practical. The Public Utilities Board should, nonetheless, serve the equally important function of reviewing the corporation's ratemaking policies and practices, and report publicly upon those reviews.

For an initial period of three to five years, the corporation should be required, annually, to submit its ratemaking policies and practices to the scrutiny of the Public Utilities Board.

The primary role of the Public Utilities Board should be that of an independent and objective critic.

The estimated cost of Public Utilities Board reviews, while significant, is not unreasonable, considering the benefits to be derived.

Members of the public should have access to the Public Utilities Board for informal reviews on specific complaints.

Following the initial period of automatic annual reviews, there should be a mechanism whereby the Public Utilities Board reviews would be triggered automatically upon objective indicators of ratemaking problems within the corporation.

In the absence of formal reviews otherwise held, the corporation should be required to submit its ratemaking policies and procedures to the scrutiny of the Public Utilities Board at least once every three years.

The corporation's annual report, while useful, is not sufficiently informative. It should be broadened to provide public information on all aspects of its business operations.

Present legislation requires senior management of the corporation to hold annual public meetings to explain the objectives of the corporation, to receive suggestions from members of the public regarding the improvement of service, and to receive and investigate complaints. That process would be a time consuming and often unproductive exercise.

Because MPIC is a monopoly provider of automobile insurance in the Province of Manitoba, it is also the sole or major consumer of the materials and services of certain industries in Manitoba, such as the automotive trades industry. Respecting those industries, the corporation may exercise an unfair and excessive influence over them.

The 1988 increase in the deductibles applicable to the repair of vehicles, unfairly affected the automotive repair industry.

The Autopac Guide, published annually, summarizes well the various insurance coverages provided under Autopac. Its circulation to the motoring public, however, is inadequate.

The public wishes to know, but is unable to obtain accurate information as to what insurance protection the premium attached to the driver's license provides.

The vehicle registration/insurance certificate does not provide adequate information concerning the allocation of premiums collected. The corporation, presently, is unable to provide such information.

XV1. RECOMMENDATIONS

Recommendation No. 1.01: That the government be authorized by appropriate legislative enactment, similar in substance to S.99 of The Financial Administration Act (Canada), to give directives to MPIC. (Page 10)

Recommendation No. 1.02: That any directive so given shall be tabled in the legislature on any of the first 15 days on which the legislature is in session after the directive is given. (Page 10)

Recommendation No. 1.03: That the provisions of The Accountability of Crown Corporations Act, which empower the Public Investments Corporation of Manitoba to direct the MPIC board upon matters of policy, be repealed and that the authority to direct the affairs of MPIC be re-vested in the MPIC board. (Page 11)

Recommendation No. 1.04: That The MPIC Act be amended to preclude appointment of the minister responsible for MPIC as chairperson of the board. (Page 13)

Recommendation No. 1.05: That the legislative provisions governing MPIC be altered to confer on the board of MPIC clear authority to direct the operations of MPIC, subject to government directives communicated to the board through a process which clearly identifies responsibility for corporate action. (Page 14)

Recommendation No. 1.06: That The MPIC Act be amended to require that the resumes of persons appointed to the board of MPIC be published and be filed in the office of the Clerk of the Legislative Assembly for public access. (Page 14)

Recommendation No. 1.07: That the present legislation be amended to ensure continuity of experience on the board. (Page 15)

*Recommendation No. 1.08: That the present legislation be amended to provide:

- That the chairperson of the board will forward to the minister or his designate, immediately following each board meeting, a description of the business transacted, together with the supporting material for decisions taken, as recorded by the minutes.
- That no material change or alteration in the substance of insurance products offered, or of the pricing of such products approved at any such meeting, shall be implemented for a period of fifteen working days immediately following the minister's receipt of the minutes in which the decision to make any such change is recorded, except on the written consent of the minister. (Pages 17 & 18)

* (This recommendation contemplates ministerial directives as set-out in Recommendations 1.01 and 1.02).

Recommendation 1.09: That the board be required by statute to appoint the chief executive officer at a salary and with employment benefits commensurate with experience and ability. (Page 20)

Recommendation 1.10: That the level of benefits which the board is authorized to offer be within the range of benefits provided to chief executive officers within the insurance industry in Canada. (Page 20)

Recommendation 1.11: That a condition of the appointment of the chief executive officer be his or her firm commitment to remain in the post for at least five years, subject to the power of the board to remove for cause. (Page 20)

Recommendation 1.12: That the present legislation requiring organizational reviews every five years be amended to require scheduled institutional audits of each function of the organization of MPIC in rotation over five year cycles. (Page 22)

Recommendation 1.13: That a component of MPIC be established to conduct comprehensive, internal audits of each function within the organization of MPIC. Among the specific functions to be audited are the following:

- Ratemaking and underwriting.
- Claims administration.
- Information systems.
- Financial administration.
- General administration.
- Marketing and product distribution. (Page 22)

Recommendation No. 1.14: That the component performing the audit report its results and its recommendations directly to the chief executive officer and the audit committee of the board of directors (Page 22)

Recommendation No. 1.15: That on the basis of the report of every such audit, the board of directors, in consultation with the chief executive officer, re-evaluate the function under review and order such changes as may be necessary to improve the quality of that function. (Page 23)

Recommendation No. 1.16: That the MPIC board be required by legislation to consider and appraise strategic initiatives relating to all aspects of the corporate mandate and that the board be empowered to direct such changes and alterations in the quality of automobile insurance coverage and service it considers will better meet the public need. (Page 30)

Recommendation No. 1.17: That legislation be enacted requiring the corporation to submit its ratemaking policies and practices to the Public Utilities Board annually for a period of at least three years commencing in 1989. The Public Utilities Board should be empowered to extend that period to five years. The responsibility of the PUB should be to assess critically the corporation's ratemaking proposals in each year, and to publish a report of its findings. (Page 37)

Recommendation No. 1.18: That following the initial period of three to five years, the PUB be required to conduct a review of the corporation's ratemaking policies if any two-year underwriting ratio, in aggregate for basic Autopac, is less than 90 percent or more than 110 percent. (Page 39)

Recommendation No. 1.19: That following the initial period of three to five years, the PUB be required to conduct a review of the corporation's ratemaking policies and practices if any two-year underwriting ratio, for any class of insurance in basic Autopac, is less than 85 percent or more than 115 percent. (Page 39)

Recommendation No. 1.20: That the corporation's loss reserves be actuarilly reviewed each year. (Page 39)

Recommendation No. 1.21: That the PUB shall be empowered to consider individual grievances submitted to it concerning MPIC rates for basic Autopac. Upon receipt of any such grievance, the PUB should have the discretion to deal with the grievance without formality and to publish its findings, or to call upon MPIC to account publicly, in open forum, concerning the grievance. (Page 39)

Recommendation No. 1.22: That once in every three years, following the period contemplated in recommendation 1.18, the corporation should be required to submit to the scrutiny of the Public Utilities Board its ratemaking policies and practices which have not been the subject of review within the previous three years and the PUB should be required to assess those policies and practices, and to publish a report of its findings. (Page 40)

Recommendation No. 1.23: That the corporation's annual report be broadened beyond its present scope to provide the public with information upon all aspects of its business operations. (Page 44)

Recommendation No. 1.24: That the present requirement for annual public meetings be repealed. (Page 45)

Recommendation No. 1.25: That the corporation solicit advice, suggestions and complaints from members of the public.

That a fair and objective summary of them be published annually. (Page 45)

Recommendation No. 1.26: That the Public Utilities Board be empowered to consider and review complaints of unfair or unconscionable treatment by the corporation respecting Manitoba industries which supply services to the corporation or are in a position to do so, and further that the Board be empowered to submit such recommendations for remedial action to the Ministers responsible, as the Board considers just. (Page 48)

Recommendation No. 1.27: That future increases in deductibles be periodically adjusted in parallel to significant increases in the rate of inflation. (Page 50)

Recommendation No. 1.28: That the annual Autopac Guide published by the corporation be included with the documents received from MPIC or an agent upon the issue of every vehicle insurance policy. (Page 50)

Recommendation No. 1.29: That information relating to the allocation of the $35 insurance fee attached to drivers licences be added to the annual Autopac Guide. (Page 50)

Recommendation No. 1.30: That the corporation develop the capability to provide segregated information as to the allocation of premiums paid for the various different risks which the basic premium insures (if that ability is not presently within the corporation's grasp), and that the vehicle registration/insurance certificate be redesigned to provide that information to the purchaser of basic Autopac insurance. (Page 52)

Paper #1
FR005/pd/vlw

Revised: September 20, 1988

AUTOPAC REVIEW COMMISSION

POSITION PAPER NO. 2

BODILY INJURY COMPENSATION

Submitted to: Honourable Glen Cummings
Submitted by: Judge Robert Kopstein

AUTOPAC REVIEW COMMISSION

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BODILY INJURY COMPENSATION

I. INTRODUCTION

Over the past several years, much has been written about the "automobile insurance crisis" in North America. It is claimed by some that the principal reason for the "insurance crisis" is the escalating amounts of court awards and settlements for bodily injury claims paid by insurance companies. It is contended that many people are over-compensated for minor bodily injuries while others are under-compensated for catastrophic injuries under the present system.

Questions relating to the benefits and the costs associated with automobile insurance have been the subject of intense review, reform and proposals for reform across Canada and the United States for the past several decades.

At its inception, automobile insurance was designed, primarily, to protect an insured motorist from personal financial responsibility to another who had sustained bodily injury, death or property damage because of the negligence of the insured motorist. That coverage provided no protection for the financial losses suffered by the insured motorist himself or herself as a result of an accident in which he or she was negligent.

Protection for vehicle owners against financial losses resulting from damage to one's own vehicle when no other party was proved negligent also became available. Subject to a deductible, usually, if such coverage was purchased, the owner of a vehicle could have that vehicle repaired under that policy. The innovation of bodily injury coverage, when the injured party could not prove that someone else's negligence caused the accident, was not available in North America, to my knowledge, until 1946.

In the year 1946, the government of Saskatchewan introduced a compulsory automobile insurance plan. Under it, first party no-fault bodily injury coverage protected the insured motorist himself or herself against financial losses sustained from injuries resulting from a motor vehicle accident in which another driver could not be proved to be negligent.

Since the introduction of the no-fault plan in Saskatchewan, a variety of no-fault plans have been established by insurers, both public and private, in Canada and in the United States. These plans are compulsory. In many states and provinces they are not available. By contrast, with the benefits available to a party whose bodily injuries are the result of the negligence of another, the bodily injury benefits under most of the no-fault plans are modest and, for those who are seriously injured, inadequate.

It is thought, by some, that negligence is an inappropriate criterion for the determination of entitlement to compensation for persons injured as a result of a motor vehicle accident. Others believe that the determination of fault is the most acceptable and the fairest basis upon which to determine the entitlement to compensation. Insurance which provided major benefits, even if one were negligent, it is argued, would provide no deterrence whatsoever to negligence in the operation of a motor vehicle.

Regardless of what system of providing insurance benefits is seen to be most desirable, the question of cost and affordability must be the final determining factor. This paper explores several variations of systems in which automobile insurance is provided in North America and explores the viability of each of them in terms of cost. The paper concludes with recommendations for change in Manitoba.

The commission was assisted by and has relied upon a research project undertaken for the commission by Caroline B. Cramer, Q.C. and Hugh J. Armstrong, both practicing lawyers.

II. THE LAW OF NEGLIGENCE

The law of negligence is a branch of the law of tort. A tort is a wrongful act which gives rise to an injury. The concept most basic to the law of negligence is that which defines the standard of care which people owe each other to avoid the infliction of harm upon one another. Only if the person alleged to have been negligent has failed to observe the standard of care required of him or her in the doing of an act which inflicts injury will he or she be liable to pay damages or compensation to a party whom he or she injures.

A. THE REASONABLE PERSON

Tort liability in automobile accident cases is founded upon negligence. The standard of care required of a person is that which would be observed in the circumstances of any given situation by a reasonable man. In an 1856 English case[1], an English judge defined negligence in this way:

> "Negligence is the omission to do something which a reasonable man, guided upon those considerations which ordinarily regulate the conduct of human affairs, would do, or doing something which a prudent and reasonable man would not do."

[1] Blythe vs. Birmingham Waterworks Seal. Law of Torts Sixth Edition, Street, Butterworths, p.124

The standard of care, which I shall refer to as that standard which would be observed by the "reasonable person", is primarily an objective standard, as said by an English Court, as follows[2]

> "The standard of foresight of the reasonable man . . . eliminates the personal equation and is independent of the idiosyncrasies of the particular person whose conduct is in question."

The objectivity of the standard is important to the tort system, because it is through that system that those who are innocent of wrongdoing and who are injured by the act of another may obtain compensation for the injury. A standard which understands and takes account of ordinary human frailty too often, would defeat the innocent victim's claim for compensation. Thus, the "reasonable person" does not forget, does not make a mistake and is never distracted. The "reasonable person" is never young enough to be inexperienced, immature or foolish. He or she takes no unnecessary risks and never drives when angry, distraught or fatigued.

While, in concept, the "reasonable person" standard is fairly clear, a comparison of two cases[3] can demonstrate its lack of clarity:

In one case the defendant driver was suddenly confronted by a large German Shepherd dog on the road. In order to avoid the dog he swerved to the right. In doing so he had an accident in which passengers were injured. The judgement of the court, in this case, was in part, as follows:

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[2] IBID P.124

[3] Canadian Tort Law Eighth Edition, Right Linden & Klar, One Butterworths, Pages 4-13.

> "On the evidence, he was presented with the three choices I have mentioned -- to turn left, to hit the dog, or to turn right. All of these courses contained a risk. Any sudden swerve to avoid an impact, particularly on a wet roadway, would create an immediate hazard to the vehicle and its occupants. He rejected the first two choices and their attendant risks for the reasons already stated, and chose the third which as he saw it, presented the least danger of the three. I find that in so doing he acted reasonably in the emergency and that his conduct meets the standard of care required by the law in such a situation."

In the second case a woman who suddenly stopped her vehicle in an intersection to avoid hitting a small animal was held to be partly negligent when the car following her collided with the rear of her vehicle. In that case, the judgement of the court was in part as follows:

> ". . .a reaction based on instinct is not enough. There must be a process of reasoning. The reaction of any driver who sees an object on the highway is to avoid striking it. Natural compassion makes him wish to avoid killing an animal, whether a squirrel or a horse. Natural caution makes him wish to avoid running over, say, a small carton, which may contain glass or steel. But in our world regard for human life and safety must always come first and it is not reasonable that a driver should risk human life or himself in order to preserve the life of an animal. There is no suggestion in this case of any danger to the plaintiff or to other persons in running over the small unidentified animal she saw, but only of danger to the animal. She should have had in her mind that stopping her car in that forbidden spot, where a stop was not be expected by the following driver, did create a risk to the following driver. She could not expect, as she might have expected if the emergency arose from the sudden appearance in the intersection of a person or vehicle, that the need to stop would be apparent to the following driver as well as to her. I think she is 50 percent to blame for (sic) in this accident".

The application of reason, which may lead to disparate results, as in these two cases, has provoked criticism of the tort system as one which is akin to a lottery.

As is indicated by the first case noted above, the "reasonable person" standard does not necessarily operate to provide compensation to the innocent victim of an accident whose injuries have been caused by the actions of another. If, notwithstanding the accident and the injuries to an innocent party, the person who has caused the accident has met the standard of care required, the injured party will remain uncompensated.

B. DEGREE OF NEGLIGENCE AND QUANTUM OF DAMAGES

Though minor negligence may be the cause of serious injuries, and more serious negligence may be the cause of minor injuries, the tort system does not, if the negligence is that of only one party, relate the degree of negligence to the amount of compensation that should be paid to the injured party.

The tort system is defended principally upon three grounds: deterrence, public acceptance and justice.

C. PRESUMPTION OF DETERRENCE

For the driver who, in the operation of his or her motor vehicle, falls below the standard which would be observed by a "reasonable person" and thereby causes an accident, the responsibility for compensating the innocent victim, under the tort system, falls upon his or her shoulders. If primarily at fault, whether the degree of negligence is great or small, the person who fell below the standard and caused the accident bears the responsibility to compensate the victim. It is argued that the risk of suffering such losses should be a strong deterrent to negligence in the operation of a motor vehicle.

The Advent of Insurance

As liability for a negligent conduct under the tort system expanded in the late 19th century, and as the industrial age created greater inherent danger of injuries, the prevalence of liability insurance grew, enabling people to pool risks of liability arising out of injuries to others for which they may be held responsible. Liability insurance to indemnify those who may be held to be negligent for causing motor vehicle accidents grew in the decades over the 20th century from a form of protection which could be purchased, but was not mandatory, to the present state of law under which liability insurance is compulsory in most, if not all, places in North America.

The effect of liability insurance was to shift a major burden for compensating innocent victims of accidents from the shoulders of the negligent driver to the insurance company by which he or she was insured. The insurance purchased to indemnify a driver against claims for injuries which he or she caused has come to be known as public liability and property damage insurance (PL and PD). Claims against an allegedly negligent driver have come to be known as third party liability (TPL) claims. The first party is the insured. The second party is the insurance company. By virtue of its insurance contract with the negligent party, it is responsible for the financial losses incurred by the negligent party up to its contractual limit. The third party is the victim who has sustained injuries and who makes a claim.

As a result of insurance, the negligent driver in most cases will be relieved from the direct burden of compensating the victim. The most serious financial detriment that he or she may suffer for driving in a manner which is merely negligent, but which causes an accident, is an increase in his or her insurance premium. The deterrent effect of the tort system, therefore, has been very much diminished by public liability insurance.

In a 1986 paper prepared for the Ontario Task Force on Insurance[4], Professor Paul H. Osborne surveys the history of the tort system over the past century. The following is a portion of that paper:

> "In the late nineteenth century fault was indeed the central and dominant concept in accident compensation. Apart from charity it was the sole basis upon which an accident victim could recover compensation. The basic proposition of fault liability, that a person is liable for damages for injury or death caused by conduct falling below the standard of the reasonably careful person, had significant emotional and moral appeal. It provided a defensible rationale for shifting the loss off the shoulders of an innocent plaintiff to a morally culpable defendant. Not only was the injured person compensated for the loss but the defendant was also punished and the public deterred from similar conduct. It could be claimed that tort law played not only a compensatory role but also had deterrent and punitive functions.
>
> "In those early times fault liability was not extensive. It was sharply restricted to certain relationships and was hedged about with restrictions and exceptions. Nevertheless the courts had chosen the conceptual basis of accident compensation which would be utilized to cope with the groundswell of societal changes in the twentieth century.

[4] A critical evaluation of liability insurance, litigation and personal injury compensation; the lessons and choices for Ontario, Professor Paul H. Osborne, University of Manitoba, March 31, 1986. Page 2.

> "The subsequent development of tort law in the area of personal injury and death has been strongly influenced by two factors: immense societal change and liability insurance. The development of a complex and highly integrated industrial, commercial and technological society brought with it dramatically increased accident rates. Motor cars, mass transportation, urbanization and mass consumption of consumer products created a significantly more dangerous society. Indeed the increased risk of personal injury is to a large extent an inevitable and unavoidable incident of social progress. Increasing accident rates brought with them a greater chance of liability for fault and those who were involved in risky activities could foresee the significant chance of crippling damage awards. The solution to this danger was liability insurance. People began to insure against the chance that they would be found liable for loss caused by their fault. Liability insurance had mutual advantages; the defendant was saved from financial ruin because the loss was spread through policy holders and the plaintiff was assured of receiving damages at least to the limit of the policy. It soon became apparent however that the prevalence of liability insurance fundamentally altered the moralistic nature of the loss shifting concept of fault. The loss shifting mechanism was converted into a loss spreading mechanism and it became more realistic to speak of the fault system as a fault/insurance system. The punitive and deterrent aspects of fault were diminished and compensation became the predominant function of tort law".

In the final report of the Ontario Task Force on insurance[5] which reported in May of 1986, David W. Slater refers to the deterrent effect of the tort system, in part, as follows:

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[5] Final Report of the Ontario Task Force on Insurance, Ministry of Financial Institutions, David W. Slater, Chairman. May, 1986, Page 63.

> "The inability of the tort-insurance system to achieve a significant deterrence objective has been documented in the literature. In 1979, the Ontario Law Reform Commission concluded that 'tort law is a haphazard and inefficient means of deterrence'. In 1984, the new South Wales Law Reform Commission went even further: 'it is difficult to find any empirical evidence which proves that . . .fault operates as an effective deterrent'."

Dr. Slater refers on the following page to a 1983 Canadian study [6] which reiterates explanations as to why the tort system fails to achieve a significant deterrence objective. They are summarized as follows:

> "Most injured people do not sue - even when there is a reasonable basis for believing that the "fault" of another could be established;
>
> "For the small percentage of injury claims that actually proceed to litigation the parties are soon confronted with the highly elastic doctrinal norms of modern negligence law and with the realization that 'fault' is not a self-defining concept, adding further imprecision and unpredictability to the process;
>
> "Years may pass as the lawsuit finds its way through court with further delays that further dilute deterrence;
>
> "When judgement is finally delivered and damages are awarded there is no relationship between the severity of the sanction (the damage award) and the degree of 'fault';
>
> "The judgement that is finally handed down by a well-intentioned court is rarely paid by the individual wrongdoer: in 9 cases out of 10 insurance fully absorbs the impact of the judicial decision;

---

[6] Belobaba, Product liability and personal injury compensation in Canada: towards integration and rationalization (1983).

> "Any residual impact that might notionally remain is at most by way of an adjustment or increase in the insurance premium, years later, and as a study of the New York Insurance Department concluded in its report on automobile insurance, 'individual last moment driver mistakes - undeterred by fear of death, injury, imprisonment, fine or loss of insured', or, one could add, by fear of a belated and imprecise adjustment in one's insurance premium.
>
> "Finally, even if these inefficiencies and obstacles could be cleared by a Herculean reform of the tort system, the question of deterrence, given the reality of modern insurance, is one that can be answered outside of tort. To the extent that modern insurance coverage means that in most situations deterrence will be achieved or will be achievable through the vehicle of premium variability or 'experience rating', this very mechanism exists and can be worked into any first-party no-tort accident compensation plan. That is, deterrence via higher premium pricing or 'penalty rating' is a common feature of many existing first-party no-tort schemes and could easily be incorporated and developed as a component of the no-tort scheme that we set out in more detail below."

In the recently published report of The Inquiry Into Motor Vehicle Accident Compensation in Ontario,[7] Mr. Justice Coulter A. Osborne makes the following comments and findings upon the issue of deterrence in the context of comments about no-fault insurance:

> "What reasonable conclusions emerge from all of this evidence? I start that exercise by noting a negative. There seems to me to be no creditable evidence to suggest that eliminating tort law and substituting no-fault will decrease accident frequency. Equally, looking at the empirical evidence as a whole it is difficult to draw the conclusion that no-fault has caused a significant adverse effect on accident rates. Nor does the evidence seem to suggest that tort liability exerts any statistically measurable effect on the level of safe driving."

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[7] Report of the inquiry into motor vehicle accident compensation in Ontario, the Honourable Mr. Justice Coulter A. Osborne, Supreme Court of Ontario, Volume 1, p. 540.

> "Apart from the suicidal there is no doubt that drivers do not intend or want to be involved in an accident. Some drivers, however, seem to believe that however fast or reckless their driving may be, they will somehow not have an accident. For that group the prospect of criminal sanctions is too remote. The Highway Traffic Act's penalties are seen as a cost of mobility. For that fringe group, the prospect of formalized responsibility through tort law and the tort system may work in some small but real way to deter the kind of driving behavior that leads to accidents. At that level, deterrence may be lost by converting from the tort system to a no-fault system.
>
> "Conclusions on the deterrence issue must remain somewhat uncertain. Nevertheless if we are rightly concerned about social attitudes and their appropriate development in the context of driver behavior then we should be cautious about doing anything which might adversely affect attitudes of basic responsibility. Accountability, however abstract and even mysterious as it may be in its manifestation, may well in the longer term support the development of what Dr. White refers to as the 'competent and responsible' driver role. Given the huge social cost of motor vehicle accidents in our society, one must question the appropriateness of abolishing a system which may exercise some effect on accident prevention even if that effect can not be measured statistically. Moreover, even if the tort system is taken to have no capacity to deter in its own right, it may well be that the introduction of no-fault compensation will lead to some, probably slight, reduction in driver care." (page 542)

D. THE PUBLIC VIEW OF RESPONSIBILITY

It is said that the tort system which determines who shall receive and who shall not receive adequate compensation is fair and is accepted by the public. The public will consider it unfair to compensate those who are at fault for an accident. The public considers it fair that people should receive full compensation when they are innocent victims. In a submission to the standing committee on the Administration of Justice in Ontario, I.S. Dunwirken, Q.C., expressed it this way:

> "In 35 years I never had a single client say: 'why should I not be paid just because the accident was my fault?'.
>
> "Many, many times, I have had clients say, in effect: 'I am entitled to be paid more than that. The accident wasn't my fault'.
>
> "In my view, members of the public are very conscious of 'fault'. The earliest conditioning was to be punished when they misbehaved and to be rewarded when they were good. They are designed to taking their lumps when their injuries are the result of their own negligence but they expect to be fully compensated when somebody else causes them injury. They expect more than reimbursement. Many years ago, clients would occasionally say: 'all I want is my expenses'. I have not heard a client use that expression in the last 15 or 20 years.
>
> "I have come to realize too that in some cases the recovery of damages is therapeutic. It is recognition to the sufferer that he has been made to suffer as a result of someone else's negligence. It is an affirmation that the sufferer, was in fact, innocent of wrong doing himself."[8]

E. JUSTICE AND THE RIGHT TO SUE FOR DAMAGES

It is argued that a principal function of insurance is to restore to the innocent victim of an accident the ability to maintain a quality of life as closely as possible resembling that which he or she would have been able to maintain were it not for the accident. Under the tort system, the innocent party who sustains injuries in an automobile accident may claim damages for all economic as well as non-economic losses. No other system can treat the circumstances and need for compensation of injured parties with the degree of individual attention as can the tort system.

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[8] Submissions to Mr. Justice Coulter A. Osborne, Commissioner, Inquiry into Motor Vehicle Accident Compensation in Ontario and I.S. Dunwirkin, Q.C., Sept. 1987, p. 12.

It is said that a deprivation of the right of a party to pursue his case in court for independent and impartial assessment is contrary to justice.

In an article entitled "the American Tort System"[9] the author states:

> "Under the tort system the injured victim not only receives full compensation for all economic losses, but is additionally compensated for the pain, inconvenience, deterioration of the quality of life, and other intangible losses incurred as a result of the accident. Proponents of no-fault frequently dismiss these general damages as unwarranted or unnecessary. However, to the injured person, they are in fact the only damages that are real.
>
> "Economic damages are important to assure the doctor, hospital and auto repair shop are paid. But for the individuals laid up in the hospital with broken ribs and faced with months of pain-filled sleepless nights and days of heavily restricted activity, the real damages lie in the intangible losses not compensated by economic damages."

If one cannot discount the strengths of the tort system, however, in being able to provide adequate compensation to some victims of motor vehicle accidents, it does not hold the promise of compensating all victims, not even all innocent victims.

F. FIRST PARTY PROTECTION

In an attempt to address the inadequacy of the tort system to compensate, universally, the victims of automobile accidents, different justifications have established different kinds of first party insurance protection. First party coverage is that insurance coverage which protects the insured for bodily injury to himself or herself according to scheduled limited benefits including hospital and medical care, income subsidy and impairment benefits. These benefits are very limited in comparison to those available to a successful claimant under the tort system. Non-economic benefits are available under first party insurance as well. In Manitoba they are called impairment benefits.

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[9] Appendix F to research project report prepared for the Autopac Review Commission, Cramer and Armstrong, Volume 2, Page 15.

These first party insurance coverages are generally referred to as "no-fault" protection. "No-fault" may refer to distinctly different kinds of first party protection. Jurisdictions across North America, generally, have adopted variations upon one of three kinds of no-fault:

- Pure no-fault.
- Add-on no-fault.
- Modified no-fault.

III. PURE NO-FAULT INSURANCE

The principle characteristic of pure no-fault, which distinguishes it from other kinds of first party coverage, is that under the laws of the jurisdiction in which it has been implemented, recourse to the courts for the recovery of damages or compensation, based upon the negligence of another party, is barred. The pure no-fault system substitutes the right to sue with the right of everyone to be compensated for injury according to a schedule. The amount of the benefits available depend in each case upon a statutory limit and upon factors surrounding the seriousness of the injury.

A. QUEBEC

The province of Quebec is the only jurisdiction in North America to have implemented a pure no-fault system. An inquiry into automobile insurance in that province in the 1970s resulted in the Gauvin Report which found that the insurance system then in place, the tort system, "provided better compensation for those who suffered property damage than for those who suffered bodily injury, that minor injuries were favoured over more serious injuries, and that the level of compensation was strongly influenced by factors unrelated to the actual loss such as, for example, the ability of the injured party to finance legal counsel."[10]

In response to that report, the Quebec assembly in 1978 created a Crown agency known as la Regie de l'assurance autombile du Quebec to provide a universal compulsory pure no-fault insurance plan. The principal characteristics of the Quebec automobile insurance plan are as follows:

1. Income Replacement Indemnities

(a) Fully Employed Persons

An employed person who is injured in a motor vehicle accident, and who is unable to work because of disability arising out of that injury, is entitled to an income replacement indemnity for the duration of his or her total disability. The amount of the indemnity depends upon the pre-accident earnings of the victim, to a maximum gross income of $36,500 per annum.

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[10] Research Paper prepared for the Autopac Review Commission, July 1988, Volume 1, Caroline B. Cramer, Q.C. and Hugh Armstrong. p.109

From that sum Quebec income tax, unemployment insurance premiums and Quebec pension plan contributions are deducted. The resulting indemnity is 90 percent of the balance. Thus it has been calculated that a person earning $36,500 gross per annum in Quebec, who is married and has two children, would be entitled to $24,193.80 per annum ($465.26 per week) as an income replacement indemnity.

For low income earners, the minimum income replacement indemnity is $164.24 per week, plus $20.54 per week per dependant up to a total of $287.48 per week.

(b) Definition of Employed

A person is employed if he or she has been continuously employed for any six month period out of the 12 months immediately preceding the accident in which he or she was injured.

(c) Indexing

Income replacement indemnities are indexed annually on the same formula as Quebec pensions are indexed. Income replacement indemnities are not taxable.

(d) Partially Employed and Unemployed

Victims who, at the time of an accident:

- Were unemployed though able to work,
- Held casual or part-time employment,

- Worked without pay in a family undertaking,
- Being unable to hold employment that they could have held on a regular or full-time basis, become entitled to an amount calculated by the Quebec regie on the basis of their qualifications, experience and the physical and intellectual capacity.

(e) Homemaker

A homemaker may claim an income replacement indemnity of up to $307.95 per week for expenses such as child care, domestic help and such other expenses as the regie may authorize.

(f) Minimum for Most

The minimum weekly indemnity for persons other than students, persons over the age of 75 years and persons who, prior to the accident, suffered from serious physical or mental disability is $164.24, plus $20.54 per week for each dependant, up to a maximum of $287.48.

(g) Students

A student is a person at least 16 years of age who attends a secondary or post secondary educational institution.

(h) Employed Students

A student who was earning income from employment at the time of an accident, but is unable to continue to work because of it, is entitled to an income replacement indemnity equal to his or her gross pre-accident weekly income.

If that income does not equal the minimum indemnity of $164.24 payable under the plan, and if because of the accident he or she becomes unable to pursue his or her studies, entitlement is $164.24 per week.

In the event a student returns to his or her studies after being injured but because of the injury cannot enter the labour market full time as would have been possible but for the injuries, he or she becomes entitled to an income replacement indemnity for the period of the delay caused by the injuries, based on the average weekly earnings of the industrial composite in Quebec as established by Statistics Canada. The 1988 industrial composite for Quebec is $15,024.88.

A student at the secondary level is entitled to 75 percent of the industrial composite. A student at the post-secondary level is entitled to 100 percent of that industrial composite. On the basis of the 1988 industrial composite, a secondary student whose entry into the labour market was delayed because of injuries sustained would be entitled to $216.71 per week for the duration of that delay. The post-secondary student would be entitled to $288.94 per week for the same period.

(i) Persons Under Sixteen

Those 16 and under are entitled to the minimum indemnity of $164.24 if, due to injuries in an automobile accident, they are unable to engage in the ordinary occupations of their age group. However, if on reaching the age of 16 they are if still unable to work due to the accident, they become entitled to 100 percent of the average weekly earnings of the industrial composite in Quebec.

(j) Senior Citizens

A person over 65 who was either employed, unemployed or a student at the time of sustaining injuries from an automobile accident is entitled to an income replacement indemnity equal, respectively, to those payable to persons under 65 within those categories, under the following conditions:

- For a period of five years if his or her age at the time of the accident was less than 70.
- Until his or her 75th birthday if he or she was over 70 but under 75 at the time of the accident.
- For 12 months if he or she was over 75 at the time of the accident.

(k) Prior Inability to Work

A person who, for any reason except age was unable to work at the time of an accident, sustains injuries in an accident resulting in serious physical or mental disability is entitled to the minimum indemnity of $164.24.

(1) Duration

Income replacement indemnities are payable for five years with its following provisions:

- If the recipient is unable to hold employment at the end of five years, the indemnity is continued.
- If, because of the injuries sustained, the victim while able to work is unable to earn a gross income equal to that used in computing his other income replacement indemnity, he or she remains entitled to a reduced indemnity based on a formula.

As an example, if the person whose income replacement indemnity was $24,193.80 while totally disabled returns to work at a salary of only $20,000, he or she will remain entitled to an income replacement indemnity of approximately $13,000.00 as well as his or her $20,000 income from employment. This provision clearly encourages return to work with a benefit to the insured. It means a gross income of $33,000. Assuming deductions from the $20,000 in salary for income tax, U.I.C. and the Quebec pension plan, the net income is still likely to remain above his or her original income replacement indemnity. It results, as well, in a net saving to the Quebec regie of approximately $11,000.00.

(m) Re-evaluation of Pensions

Income replacement indemnities are payable as pensions and are re-evaluated each year in accordance with pension indexing under the Quebec pension plan.

(n) Old Age Pension

The income replacement indemnity is reduced by the amount of benefits received as old age pension when the victim reaches the age of 65.

(o) Waiting Period -- Income Replacement Indemnity

No income replacement indemnity is payable for the first week following an injury.

2. Death Benefits

Upon the death of an accident victim, his or her survivors become entitled to death benefits.

(a) Indemnities for Surviving Spouse

The surviving spouse of the victim is entitled to an indemnity equivalent to 55 percent of the income replacement indemnity to which the victim would have been entitled. This benefit is limited to five years in the case of the surviving spouse who at the time of the accident is under 35 years of age, is childless, and is not disabled.

(b) Indemnities for Spouse and Children

The first child who was dependant upon the deceased victim entitles the surviving spouse to

65 percent of the indemnity to which the victim would have been entitled. For each subsequent dependant the surviving spouse becomes entitled to an additional five percent, up to 90 percent of the income replacement indemnity that the victim would have received.

(c) Indemnities if No Surviving Spouse

If the victim died leaving no spouse, one surviving dependant is entitled to 55 percent of the amount of the income replacement indemnity that the victim would have received. Two dependants are entitled to share 65 percent of that indemnity. For each dependant over two, the indemnity is increased by five percent up to a total of 90 percent. A person remains dependant and is entitled to this benefit for as long as he or she would have continued to be the victim's dependant had the victim lived.

(d) Entitlement to Minimum Pension

If the victim's earnings in life would have entitled him or her to an income replacement indemnity of less than $164.24 per week, the minimum pension payable to his or her surviving dependants is $164.24 per week for a sole dependant plus $20.54 per week for each dependant up to a maximum of $287.48 per week.

(e) Indemnities if No Surviving Spouse or Dependants

If the victim had no surviving spouse or dependants but was employed by an enterprise, the principal owner of which was related to him or her by blood or adoption, the owner becomes entitled to the minimum pension of $164.24 per week for a period of five years, or until the owner's death, whichever is earlier.

(f) Indemnities for Victim's Parents

In the event that the victim dies as a result of an automobile accident, leaving neither a spouse nor dependants, his or her surviving parent or parents are entitled to a lump sum of $8,400.54.

(g) Indemnities if No Surviving Parents, Spouse or Dependants

In the event that the victim dies leaving no surviving parents, spouse or dependants, his or her estate becomes entitled to $4,200.27, as well as to $2,800.18 for general expenses -- presumably to cover funeral or other expenses.

3. Medical Expenses

The Quebec plan contains no limit on coverage for medical expenses. Without limit of time, and to the extent that they are not already covered by a social security scheme, persons injured in automobile accidents are entitled to be reimbursed for reasonable expenses for medical and paramedical care, ambulance costs, the cost of prosthesis or orthopedic devices, clothing replacement and other expenses of a similar nature that may be authorized by the Quebec regie.

4. Payments for Impairment: Disfigurement, Suffering, Loss of Enjoyment of Life

In the event of the permanent impairment of a bodily function, the plan provides lump sum payments for suffering or loss of enjoyment of life which, depending upon the seriousness of the impairment, may range from $377.80 to $37,780.14. The precise amount in each case is based upon the percentage of total bodily impairment according to a schedule.

During the course of the commission's review, I visited the offices of the Quebec regie in Quebec City to discuss the Quebec model with corporation officers. Concerning impairment benefits, I was advised that while the maximum payable is presently $37,780, there is a bill presently before the legislature in Quebec to increase that maximum to $140,000.

5. Other Features

A resident of Quebec may purchase insurance protection supplementary to the plan administered by the Quebec regie for financial losses sustained because of bodily injury. Entitlement to collateral benefits from private insurance plans does not reduce the benefits payable under the Quebec plan. To the extent that benefits are payable by other public plans, however, the benefits payable by the Quebec regie are reduced.

6. Rehabilitation Assistance

The Quebec legislation provides that the Quebec regie may take measures that are necessary and make such expenditures as it deems advisable to contribute to the rehabilitation of victims, lessen or cure any disability resulting from bodily injury, facilitate the victims' return to a normal life in society and return to the labour market. In 1986, the corporation spent \$3.1 million on programs to assist victims to return to the social and working world. I am advised by Cramer and Armstrong that it has also developed creative programming to subsidize health care research and development programs to ensure positive aspects of the rehabilitation of entire families.[11]

7. Funding of Quebec No-Fault Plan

Since, in Quebec, vehicle or property damage insurance is provided by the private sector, the funding for the bodily injury plan needs to take into account underwriting expenses only for bodily injury claims. Its two major sources of funding are premiums which are associated with vehicle registration and drivers' licenses. Vehicles are rated according to class though the ratings are very broad. For example, the premium for all private passenger cars is \$99. Commercial type vehicles pay a higher rate. The premium associated with a driver's licence is \$25. Those premiums do not include vehicle and property damage coverage. No meaningful comparison has been attempted between the Quebec regie's premiums and those of MPIC for bodily injury coverage.

8. Constitutional Challenge of the Quebec Plan

I am informed that no constitutional challenge has been mounted in Quebec concerning the absence of the right to sue in tort.

[11] Op. Cit. 123

B. NEW ZEALAND

Of interest to the commission during the course of its review, was the accident compensation plan provided by the accident compensation corporation in New Zealand. The New Zealand plan, like that in Quebec, is pure no-fault. It is, however, not restricted to compensation for injury resulting from automobile accidents. It is a plan which provides compensation for injuries due to accidents in virtually every activity of life.

Cramer and Armstrong prepared a detailed summary of the benefits under the New Zealand plan (in Vol. 1 at p. 101, Appendix I of their report), as well as an outline of the origins, philosophy and other characteristics of the plan (Vol. 2).

As well, the commission had the benefit of speaking with Professor Phillip H. Osborne whose paper, Accident Compensation in Manitoba: Reflection After a Decade in New Zealand, is enlighting.

As the terms of reference of this commission did not mandate consideration of an all-encompassing accident compensation plan such as that in New Zealand, I have not done very much more than to marvel at the concept and the benefits which the plan appears to provide to those who are seriously injured through accidents.

In reviewing the information about the accident compensation plan in New Zealand, however, I recognized that my terms of reference afforded me neither the time nor the resources, nor indeed the mandate to consider a total accident compensation plan for Manitoba. Having mentioned the New Zealand plan, however, I find it difficult to leave the subject of a broad compensation plan without reference to the comments of Mr. Justice Hall of the Manitoba Court of Appeal in a 1982 case referred to by Professor Osborne at p. 55 of the same paper. Mr. Justice Hall said:

> ". . . in my opinion it makes no sense at all to have in place a modest and predictable system of compensation for injured workers and victims of crime while at the same time tolerate a risky, difficult and wholly irrational system of Court sponsored assessments for persons injured by reason of a motor vehicle upon a highway. It is all the more nonsensical when such persons may receive no compensation at all or compensation way out of proportion to that received by injured workers or the victims of crime . . . . The Legislature needs to address the broad question of accident and sickness compensation in Manitoba, and a good starting point would be 'A Government White Paper' . . . . I commend that paper to the government for early consideration."

IV. ADD-ON NO-FAULT INSURANCE

Description

The automobile insurance in Saskatchewan, British Columbia and Manitoba are each add-on, no-fault plans. Under these plans, the no-fault benefits are guaranteed, and there is no restriction of access to the court for the recovery of compensation, based upon negligence. In the event that an injured party successfully sues the party at-fault, and recovers a judgement for damages, the insurer in Saskatchewan, British Columbia and Manitoba may deduct from the court award those amounts paid by it as no-fault benefits. As well, the corporation may discontinue the future payment of disability benefits.

Concerning the deductions, and cessation of disability benefits, however, I am satisfied that MPIC might not always do so in circumstances which would leave the victim destitute. The case of M, referred to in The Public Concern Paper of this report, seems to illustrate that point.

A. TORT AND NO-FAULT ADD-ON UNDER AUTOPAC

The no-fault, add-on features of the plans in Saskatchewan, British Columbia and Manitoba for bodily injury, are similar. I describe here the details and characteristics of the Manitoba plan, firstly as it insures Manitoba motorists against claims for compensation by parties whom they injure through their own negligence in the operation of a motor vehicle, and secondly as it assures compensation to virtually everyone in Manitoba for disabling injuries which are the result of a motor vehicle accident.

The wisdom and the merit in the add-on, no-fault system as it exists in Manitoba is that it assures to everyone some financial relief if disabled as a result of a motor vehicle accident, while leaving intact the right of an innocent party who can establish that another person was negligent, to claim compensation that more realistically relates to his or her special needs resulting from the injuries. MPIC indemnifies the Manitoba motorist under its basic plan against personal responsibility for the payment of such claims up to a limit of $200,000. As well, it provides the innocent victims of injuries sustained through the negligence of the driver of an uninsured vehicle with a means to recover compensation from the corporation. This protection is described in further detail below.

1. Benefits Under Tort System

(a) The Nature of Coverage

Autopac provides to those it insures an indemnity against claims for compensation arising out of injuries or property damage sustained by another party because of the negligence of the insured.

(b) Motorcyclists - Limited Coverage

Under basic Autopac, motorcyclists are not indemnified against claims for losses sustained by their passengers.

(c) Persons Insured

Every person who owns a vehicle registered in Manitoba and every person who, being at least 16, is qualified and authorized to drive the vehicle, is protected under basic Autopac to the extent of $200,000 for bodily injuries or property damage sustained by another party due to that owner's or driver's negligence.

(d) Driver's Policy

A person who holds a valid driver's licence and operates an uninsured vehicle which is not owned by him or her, or by anyone with whom he or she resides, is protected against claims for bodily injury or property damage made against him or her, if at the time of the accident he or she believed, on reasonable and probable grounds, that the vehicle was insured.

(e) Conditions of Coverage

The protection provided to an insured for claims by other parties, because of his or her own negligence, is subject to several conditions. The breach of any of these relieves the corporation from the obligation to pay, including:

- Driving while not being qualified and authorized by law to do so. (The purchase of extension coverage extends the indemnity, however, to one who is either qualified or authorized.)

- Driving while one's licence is suspended, or while prohibited from driving under court order.
- Driving while using the vehicle for any prohibited trade or transportation.
- Driving when an unregistered trailer is attached to the vehicle.

(f) Relief from Forfeiture

Notwithstanding the corporation's right to refuse coverage, the court may, where it considers the forfeiture of benefits to be inequitable, restore coverage on such terms as it considers to be just.

(g) Convictions for While Impaired

The corporation is bound to pay on behalf of an insured for injuries caused to an innocent party, if the insured is convicted of a drinking-driving offence. In that event, however, the corporation acquires the right to sue and to recover from the insured, who was convicted, the sum paid on his or her behalf.

(h) Limit of Liability

Regardless of the sum awarded by the court for compensation or damages as a result of bodily injuries sustained or property damage incurred, the corporation's liability under basic Autopac to pay such claim is limited to $200,000. That is the maximum limit, regardless of the number of claims. Thus if, as a result of injuries caused to innocent people, the court awards damages in excess of $200,000, the injured persons or the representatives of their estates may pursue the insured himself or herself for the excess. Should the insured be unable to pay the excess, the injured person or persons will have no recourse, unless he or she had bought special coverage for that eventuality.

As well, in the event that the negligent party is not a resident of Manitoba and is insured by a company in another province or state for less than $200,000 covering liability and property damage, the corporation is not bound to pay the difference between the award and the limit of the liability for which the out-of-province insurer is responsible.

(i) Protection against Uninsured Motorist

Insurance protection is provided to the innocent victims of the negligence in Manitoba of a motorist whose vehicle is uninsured. The injured victim may sue all parties who may be legally responsible for the negligence of the driver of the uninsured motor vehicle. If judgement results, the corporation, subject to a 30-day right of appeal, is obliged to pay the amount of the judgement up to a maximum $200,000. As an alternative, the innocent victim of the negligence of another motorist whose vehicle is uninsured may apply directly to the corporation for compensation. In this case, the corporation and the victim may negotiate a settlement if:

- The uninsured motorist consents and agrees to repay the corporation.

- The uninsured motorist does not respond, having been notified of the corporation's intention to do so.

- The injured party executes a release.

In all cases, the corporation may sue and recover from the owner of the uninsured vehicle the amount paid by it.

(j) Protection Against "Hit-and-Run" Drivers

Insurance monies are available to compensate for the injuries sustained by innocent victims of the negligence of a driver when the identity of that driver and the vehicle owner are unknown, or when the owner establishes that the vehicle was driven without his or her consent by a person other than a member of his or her household. In that circumstance, upon the order of a judge, the corporation must stand in the place of the person who could have been sued had his or her identity been known.

(k) Extension Coverage

Extension coverages may be purchased providing for indemnity against the claims of others up to $2 million from the $200,000 mandatory coverage.

The purchase of extension coverage entitles the purchaser to other benefits automatically. One of those is the entitlement to purchase underinsured motorist coverage.

(1) Underinsured Motorist's Coverage

A Manitoba motorist insured by Autopac may be severely injured and, perhaps, permanently disabled because of the negligence of another driver. The injuries may result in a court award of $500,000. After the payment of all expenses, including medical and legal costs, special equipment costs, the costs of home alterations to make movement possible and the costs of care, the injured party might be left with $350,000. That sum invested at nine percent would leave the victim with about $31,500 per year or $605.76 per week upon which to live and to pay for special care. Having won the judgement, however, for $500,000 the victim could be confronted with the fact that the negligent driver

- who is a Manitoba motorist, was indemnified (had public liability coverage) against the claims of others only to the $200,000 minimum level required under basic Autopac, or
- who was not a Manitoba motorist, and was indemnified against the claims of others for even less than $200,000.

Those factors might render valueless the judgement in excess of the amount of liability coverage by which the negligent party was insured. The excess between $200,000 and $500,000 might never be collected. The negligent party himself or herself might have few assets beyond his or her modest home which is mortgaged to 90 percent of its value. Assuming all expenses to have been only $25,000.00, the insured would be left with $175,000.00. Invested at 9 percent he or she would have to be content with $15,750.00 per year or $302,88 per week.

To protect oneself against the underinsured motorist, the wise Manitoban purchases underinsured motorist coverage. With that coverage, he or she may claim from the corporation the excess of any award in his or her favour over the amount of liability insurance carried by the negligent party. Underinsured motorist coverage may be purchased up to a limit of $2 million. While the premium is not high, it is only available with the purchase of an extension coverage described above.

2. Autopac No-fault Benefits

The remaining portion of the Autopac coverage for bodily injuries consists of its no-fault provisions. The major provisions of the no-fault coverage follows:

(a) Beneficiaries

The no-fault benefits extend to every person in Manitoba in the event that he or she sustains bodily injury as a result of a traffic accident, or as a result of entering or exiting from a motor vehicle. Such benefits extend as well to the surviving dependants of a person who dies as a result of a motor vehicle accident.

(b) Ineligible Persons

o. Not Qualified or Authorized to Drive

No accident benefits are payable in the event that the person who sustains injury was not qualified and authorized at the time of the accident to operate the class of vehicle which he or she was operating at the time of the accident. Nor is the passenger of such a vehicle entitled to no-fault benefits, unless the passenger believed that the driver was qualified and authorized to do so. Again, the purchase of extension coverage provides protection if the driver was either qualified or authorized.

Application may be made to the court for the payment of benefits, however, notwithstanding this disqualification, and the court may make an order when it deems the forfeiture to be inequitable.

o Impaired Drivers

No-fault benefits are excluded as well to those who operate a motor vehicle under the influence of an intoxicating liquor or drug to such an extent as to be incapable of proper control of the vehicle, or who are convicted of a drinking-driving offense.

o Persons Being Pushed or Pulled

No-fault benefits are excluded when an injured victim attaches himself or herself to a vehicle for the purpose of being pulled or pushed by it.

3. Medical Expenses

Medical expenses which are not covered by a compulsory health insurance scheme are payable to a limit of $100,000. Any unused portion may be applied toward the rehabilitation of the victim.

4. Autopac Disability Benefits

(a) Total Disability

A person injured in a motor vehicle accident, and who within 20 days of the accident becomes totally disabled as a result of those injuries, is entitled to a minimum disability payment of $150 per week or 70 percent of his or her gross earnings to a maximum of $300 per week. Payments continue for as long as total disability persists.

(b) Totally Disabled Homemaker

A homemaker who maintains a household for a person or persons other than himself or herself, who does not regularly earn income outside of the home, and who is totally incapable of performing any and all household duties as a result of the injuries sustained, is entitled to a sum of $150 per week for the duration of his or her disability.

(c) Partial Disability

A person, other than a homemaker, who suffers a partial disability within 20 days following a motor vehicle accident, and who was at the date of the accident working, or had worked for six months out of the 12 month period immediately proceeding the accident, is entitled to $60 per week for a maximum of 104 weeks.

A partially disabled homemaker is entitled, as well, to $60 per week for a maximum for 104 weeks, if he or she is incapable of performing one or more of his or her essential daily household duties.

(d) Persons with Mental or Physical Infirmities

Infants and persons who, because of mental or physical infirmity, are unable to provide themselves with the necessaries of life prior to an accident, are not entitled to disability benefits except when a person under 18 is injured as a result of an automobile accident, and remains disabled to the time of his or her 18th birthday. He or she then becomes entitled to the minimum disability benefit of $150 per week for as long as the disability endures.

If an infant's disability is partial and remains so until his or her 18th birthday, he or she is entitled to a benefit of $60 per week for 104 weeks from his or her 18th birthday.

(e) Recovery From Pre-Existing Condition

Where it can be shown that an injured person, who had been unable to provide him or herself with the necessaries of life because of mental or physical infirmity prior to the accident,

- would have been cured of the pre-existing condition, but remains unable to earn a livelihood because of injuries sustained in the accident,

- has been substantially cured of that pre-existing condition but remains unable to earn a livelihood because of the injuries sustained in the accident,

- has been totally or partially cured of the pre-existing condition but remains unable to earn a livelihood because of the mental or physical incapacity caused by the accident,

he or she is deemed to be totally or partially disabled, as the case may be, and is entitled to the benefits applicable respectively for those categories of disability.

5. Death Benefits

(a) Upon Death of Husband

Upon the death of male person, as a result of a motor vehicle accident, his wife is entitled to a death benefit of $10,000.

(b) Upon Death of Wife

Upon the death of a wife, as a result of a motor vehicle accident, the surviving husband is entitled to $10,000.

(c) Dependants

The dependant children or parents of an insured are entitled to a sum of $2,000, each, up to a maximum of $10,000.

A dependant child is:

- A person under 18 dependant upon the insured,
- A person over 18 who, because of mental or physical infirmity, is unable to provide for himself or herself.
- A person 21 or less who is enrolled in a course of formal education and who is dependant upon the insured.

(d) Benefits if no Surviving Spouse or Children

If a deceased insured is survived by neither a spouse or children, the parents, brothers and sisters of the insured, who were wholly or partially dependant upon him or her, are entitled to share in the sum of $4,000.

(e) Upon Death of Child

If an infant child dies as a result of an injury sustained in a motor vehicle accident, and no benefits are otherwise payable in respect in his or her death, the parents with whom he or she usually lived are entitled to $2,000.

(f) Upon Death of Unmarried Child Over Eighteen

In the event of the death of a person 18 or more who leaves no surviving spouse or husband, his or her parent or parents are entitled to the sum of $2,000.

(g) Funeral Expenses

The sum of $2,500 is payable to defray the cost of funeral expenses for a person who has died of causes directly attributable to an injury sustained in a motor vehicle accident, whether before or after treatment.

6. Impairment Benefits Under Autopac

(a) Definition of Impairment

The benefits payable for loss of limb or impairment of a bodily function are intended to compensate a victim for non-economic losses such as pain and suffering and loss of enjoyment of life. In the Quebec legislation, that intention is expressed. The highest benefit payable in Manitoba is $20,000. In comparison, an award for pain and suffering through a successful claim under the tort system against a negligent party may approach $190,000.

(b) Degrees of Impairment

The maximum amount payable for loss or impairment of a bodily function is $20,000. A comprehensive schedule of individual bodily functions, which may be impaired or lost due to injury, are each assessed a percentage of total bodily function. The following is a list of some of the impairments which may be suffered and the corresponding percentages payable for those impairments:

- For the loss of a hand, impairment is assessed as 40 percent, or $8,000.
- For the loss of a thumb, impairment is assessed as 15 percent, or $3,000.
- For the loss of sight in both eyes, impairment is assessed as 100 percent, or $20,000.
- For the loss of sight in one eye, impairment is assessed as 45 percent, or $9,000.
- For slight brain damage, impairment is assessed as five percent, or $1,000.
- For moderately severe brain damage, impairment is assessed as 50 percent, or $10,000.
- For extremely severe brain damage, impairment is assessed as 70 percent, or $14,000.
- For profoundly severe brain damage, impairment is assessed as 90 percent, or $18,000.
- For total brain damage, impairment is assessed as 100 percent, or $20,000.

(c) Permanent Total Disability

If the injuries sustained in a motor vehicle accident render the victim permanently incapable of engaging in any occupation for wages or profit, he or she is entitled to $20,000 regardless of the percentages of impairment otherwise specified. No person, however, is entitled to a sum greater than $20,000 for loss or impairment of bodily functions.

(d) Time Between Accident and Impairment

The impairment must have resulted within 90 days of the accident, except that this period may be extended up to one year in a case where the victim's physician advises that he or she is treating the victim, and that permanent impairment may result.

7. Financing of Autopac No-Fault Benefits

As discussed in other position papers of this report, MPIC does not segregate the portion of the premium paid allocated to pay for the no-fault bodily injury claims. I am unable, therefore, to identify with any precision what sum or proportions of total premiums paid are applied to insure the no-fault benefits.

A consultant* to the commission, however, reveals that the corporation paid bodily injury claims of $90,311,000 in 1987, of which $15,420,000 was paid for no-fault bodily injury benefits, and $74,891,000 was paid for public liability bodily injury benefits. Assuming 630,000 drivers in Manitoba, the approximate average cost per driver for the no-fault personal bodily injury coverage was $24.48. The average cost per driver of public liability coverage for the bodily injuries of others was $118.87. It appears, therefore, that the total average cost per driver was $143.35, or assuming 850,000 vehicles, approximately $105.00 per vehicle.

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* Tillinghast

B. REHABILITATION BENEFITS PROVIDED BY MPIC AND ICBC

Prior to 1988, the fund available for the rehabilitation of victims, under the no-fault provisions of Autopac, was that portion of the $20,000 medical expense allowance per injured person which remained unexhausted after medical treatment. With the increase in the medical expense limit on July 15, 1987, to $100,000, the funds available for rehabilitation of seriously injured victims may be greater. The MPIC Act treats the subject of rehabilitation, however, almost as an afterthought.

It is significant to note a difference of emphasis between the Manitoba and British Columbia formal approaches to rehabilitation. In Manitoba, the corporation is bound to pay rehabilitation expenses only if there are funds remaining from the medical expense allowance, which then become available only for occupational rehabilitation or retraining. The section is as follows:

> "6(2) Within the limit mentioned in subsection (1), where the amount of twenty thousand dollars is not firstly exhausted upon the items mentioned in subsection (1), that amount or the balance therefor, or such part thereof as may be necessary for occupational rehabilitation or retraining for an insured who has sustained injuries in an accident for which coverage is provided under this Part, and by reason of which he has become incapable of continued engagement in a former trade, occupation, profession, or employment for wages or profit, shall be paid by the corporation."

In comparison, the corresponding section of the British Columbia regulations provides as follows:

> "Medical or rehabilitation benefits
>
> "88. (1) Where an insured is injured in an accident for which benefits are provided under this Part, the corporation shall, subject to subsections (5) and (6), pay as benefits all reasonable expenses incurred by the insured as a result of the injury for necessary medical, surgical, dental, hospital, ambulance or professional nursing services, or for necessary physiotherapy, chiropractic treatment, occupational therapy or speech therapy.
>
> "(2) Where, in the opinion of the corporation's medical adviser, provision of any one or more of the following is likely to promote the rehabilitation of an insured who is injured in an accident for which benefits are provided under this Part, the corporation may provide any one or more of the following:
>
> (a) funds to the insured once during the lifetime of the insured for the acquisition by the insured of one motor vehicle equipped as necessary and appropriate to its use or operation by the insured, the choice of make or model of vehicle to be in the sole discretion of the corporation;
>
> (b) funds to the insured once during the lifetime of the insured for alterations to the insured's residence that are necessary to make the residence accessible to and usable by the insured, the style and cost of the alterations to be in the sole discretion of the corporation and the alterations to be limited to necessary ramps, a necessary lift, necessary bathroom alterations and, where the insured is a housewife or a person who lives alone, necessary kitchen alterations;
>
> (c) reimbursement to the insured for the costs of homemaker services, other than services provided by a member of the insured's family, where the insured has returned to and is residing in the community but is not capable of performing some or all of the tasks necessary to sustain an independent lifestyle, the amount of the reimbursement to be limited to the lesser of
>
> (i) the monthly cost of a group residence that would be appropriate to the needs and lifestyle of the insured, or

(ii) the monthly cost of homemaker services not exceeding 12 hours per day;

(d) reimbursement to the insured for costs incurred from time to time by the insured for one or more of the following items:

(i) a wheelchair with required attachments;

(ii) a medically prescribed bed with required equipment;

(iii) bowel and bladder equipment;

(iv) grooming and hygiene aids;

(v) transfer boards or lift;

(vi) eating aids;

(vii) communication aids;

(viii) dressing aids;

(ix) respirator equipment;

(e) funds to the insured for vocational or other training that

(i) is consistent with the insured's occupation and his post-injury skills and abilities, and

(ii) may return the insured as nearly as practicable to his pre-injury status or improve the post-injury earning capacity and level of independence of the insured;

(f) funds for any other costs the corporation in its sole discretion agrees to pay.

"(3) Before providing funds or reimbursing the insured under subsection (2), the corporation may require the insured to submit any plans, estimates, receipts or other documents it considers necessary for determining the amount of the funds or reimbursement.

"(4) The corporation is not liable to insure, repair, replace or maintain a motor vehicle acquired by an insured under subsection (2)(a) except in the course of an approved repair resulting from a subsequent claim for insured loss or damage to the vehicle.

> "(5) The amount by which the liability of the corporation under this section is limited is the amount set out in section 3 of Schedule 3.
>
> "(6) The corporation is not liable for any expenses payable to or recoverable by the insured under a medical, surgical, dental or hospital plan or law, or payable by another insurer.
>
> "Arbitration
>
> 89. For the purpose of section 88(1), any dispute between the corporation and an insured as to whether or not an expense is reasonable, shall be submitted to arbitration under section 62."

It appears from the comparison of the two pieces of legislation that British Columbia's regulation fosters rehabilitation while the Manitoba regulation does not. In particular, 5.6(2) of the Manitoba regulation confines rehabilitation exclusively to occupational rehabilitation. Attempting to teach new occupational skills without serious effort to rehabilitate the psychological devastation of a crippling injury may be a waste of time and resources.

Nevertheless, on information received from the corporation and from the commission's consultant, it seems clear that MPIC has interpreted 5.6(2) liberally. It has attempted to build a rehabilitation policy of greater magnitude than the regulation envisages. MPIC provides funds for many of the same rehabilitation services as the British Columbia insurance plan. Funds have been spent on the rehabilitation of victims for several purposes, including training and education, equipment to improve the quality of life, extended disability payments as incentive to return to work, and other subsidies to salaries earned through employment. Some of the benefits were lump sum payments and others were weekly indemnity payments. Between August of 1986 and June of 1988, rehabilitation assistance was rendered in 28 cases.[12] The provision of assistance to only 28 cases over

[12] IBID Volume 2 Appendix K

almost two years suggests to me that only the most obvious cases received rehabilitation support.

Documentation from the corporation informs me, in part, as follows:

> "As of June 1, 1988, there are 128 claimants with the Corporation who are injured severely enough to be on our Automated Long Term Disability Program. Each of these cases has recently been reviewed by the Rehabilitation Supervisor, who found that 65 of these cases have absolutely no rehabilitation potential due to the very severe and disabling nature of their injuries. The remaining 63 cases have some potential for rehabilitation, ranging from remote to excellent . . . .
>
> "Up until July 15, 1987, the coverage available under medical expenses was limited to $20,000. In the most catastrophic injuries, a good portion of this $20,000 would be required for ongoing medical expenses, leaving little available for use in other areas of rehabilitation. On July 15, 1987, the medical expense coverage was extended to $100,000, thereby increasing the potential for money available for rehabilitation purposes. It has, however, not caused that much of a change in regard to the amount of money utilized for rehabilitation purposes."

In Cramer and Armstrong's examination of the issue of rehabilitation, they identify four main areas in which comprehensive rehabilitation programs should concentrate:

- Individual assessment.
- Psycho-social counseling.
- Physical therapy.
- Career development/vocational rehabilitation.

They advise that while there are many groups in Manitoba which engage in the above activities, there is no single agency with a coordinated approach to the subject of[13] rehabilitation. Even if there was an inventory of agencies through which an approach to a policy on rehabilitation could be adopted, the corporation has not, to this point, maintained records or a database upon which it could build a useful policy on rehabilitation. The commission's consultants point out that the corporation would need to know:

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[13] Op cit. p. 162

"1) What are the numbers of people needing rehabilitation as a result of their auto injuries?

2) Is it possible to link into systems already in place?

3) Could an umbrella organization be developed that would suitably 'politically and philosophically' address those needs?

4) How aggressively should a new policy be pursued?

5) Could MPIC network with Worker's Compensation Board, Manitoba Health Services Commission, private agencies?

6) Would it be feasible to develop a model as a pilot project to test out various programs?

7) What are the special needs of MPIC which set it apart from the needs of other organizational structures?

8) Should separate legislation be put in place to make the law both sensible and workable?"

V. MODIFIED NO-FAULT INSURANCE

The principal distinguishing characteristic of a modified no-fault plan is that the right of an injured party to sue another party, who was allegedly at-fault for the accident, is restricted to claims for the more serious of injuries. When a person is injured in a motor vehicle accident and believes that the other party is at fault, he or she may sue the other party, provided that his or her claim meets a certain threshold in terms of the seriousness of injury, as measured by statutory criteria. The "threshold" no-fault plans in place within the United States may be summarized as follows:

A. EXPERIENCE IN THE U.S.

Modified no-fault insurance provisions have been introduced in 15 jurisdictions in the United States. In those jurisdictions, a "threshold" is a term which prescribes a dividing line between serious injuries and minor injuries. Statutory criteria define what is minor and what is serious. The claims of those with minor injuries are statute-barred in the sense that those within that category must be content with the benefits payable under no-fault provisions. They are barred from commencing an action in tort to recover compensation for negligence under the common law principles. The benefits are fixed and limited. On the other hand, those persons whose injuries are serious within the meaning of the statutory definition may sue the party alleged to be at-fault. In that case, upon succeeding against the party alleged to be at-fault, the court assesses the amount of compensation the injured person should receive for losses sustained, including anticipated losses of future earnings, and an amount calculated to compensate adequately for loss of enjoyment of life and pain and suffering.

1. Thresholds

Three different kinds of thresholds have been employed in the United States to identify the dividing line between a serious injury and a minor injury: a verbal or narrative threshold, a disability threshold and a dollar threshold. Some states employ a combination of one or more of these three.

(a) Verbal or Narrative Thresholds

When the dividing line between serious and minor injuries is defined by a verbal or narrative threshold, the injured party's right of access to the court will depend upon statutory language such as the following:

- "The injured party has suffered death, serious impairment of bodily function or permanent serious disfigurement.", or

- The legislation may provide the injury is serious if it results in:

  i. Death.

  ii. Significant and impairment loss of an important bodily function.

  iii. Permanent injury within a reasonable degree of medical probability, other than scaring and/or disfigurement; or

  iv. Significant and permanent scaring or disfigurement.

(b) Disability Threshold

When the dividing line between minor and serious injuries is fixed by a disability threshold, the seriousness of the injury is equated to the length of time the insured is disabled. The commission's consultants advise that the statutory language used to define it may be as follows:

- "A medically determined injury or impairment of a non-permanent nature which prevents the injured person from performing substantially all of the material acts which constitute such persons usual and customary daily activities for not less than 90 days during the 180 days immediately following the occurrence of the injury or impairment.", or
- "The injury results in substantial permanent scaring or disfigurement, substantial and medically demonstrable permanent impairment which has significantly affected the ability of the victim to perform his or her professional activities or usual and customary daily activities, or a medically demonstrative impairment that prevents the victim from proforming all of substantially all of the material acts and duties that constitutes his or her usually customary daily activities for more than 180 continuous days."[14]

(c) Dollar Threshold

Dollar thresholds identify the dividing line between minor and serious injuries by equating the amount of the medical expenses incurred as a result of the injuries to the degree of their seriousness. Thus, if the amount fixed were $1,000 and the medical expenses exceeded $1,000, the injured party could proceed to sue the other party.

(d) Combination of Thresholds

The use of the combination of thresholds is introduced in legislative language such as the following:

- Death; fractured bone; permanent disfigurement; dismemberment; permanent loss of

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[14] Ibid. 30

> bodily functions; permanent partial or total loss of sight or hearing; reasonably incurred medical expenses exceeding $500, or disability for at least ten consecutive days.

Cramer and Armstrong advise that the modified no-fault systems were implemented to correct perceived abuses of the tort system including undercompensation for serious injuries and overcompensation for minor injuries, the disproportionate costs of defending claims for minor injuries, the inefficient allocation of court resources, and discrimination against those unable to finance the prosecution of their cases.[15] Cramer and Armstrong, however, admonish the commission that:

> "restricting the civil rights of injured persons, including the right to seek compensation for pain and suffering from another person who has wrongfully inflicted the injury, should only be considered where the effect clearly benefits in great measure the overall population. The burden of showing good cause should be upon those who seek to restrict the right."[16]

Each of the thresholds described create their own inherent complexities which tend rather to encourage or enhance the need for judicial determination rather than to discourage it. The verbal threshold, for instance, which permits court access if the injury is a ". . . serious impairment of bodily function," has brought many cases before the court for determination as to whether the injuries in specific cases meet that criterion. Another verbal threshold, however, which omits such vague language as "serious impairment of bodily function" is, reportedly, satisfactory and successful.

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[15] op cit. Vol. 1, p. 31

[16] Ibid. p. 35

The dollar threshold must be high enough to discourage minor claims and low enough so as not to exclude serious claims. That amount having been determined, Cramer and Armstrong report that dollar thresholds "may lead to excessive treatment of injuries in an effort to overcome the threshold requirement. It has been charged that injured persons, doctors and lawyers collude to defeat the threshold. A regime that may encourage, and in effect reward, such corruption does not find a great deal to recommend it."[17]

The disability thresholds, according to the commission's consultants, have been an incentive to injured parties to prolong their disabilities and to hamper efforts of rehabilitation."[18]

2. Benefits Under Modified No-Fault Plan

The commission is advised by Cramer and Armstrong that under the no-fault plan in Michigan the benefits are as follows:

Reimbursement For Lost Wages

Under the Michigan plan, an insured may recover 85 percent of lost net income up to a maximum of $2,569 per month, for a maximum period of three years. As well, the plan provides for assistance in paying for replacement services up to $20 per day for a maximum of three years.

[17] Op. Cit., Vol. 1, p. 34

[18] Ibid. p. 35

Medical And Rehabilitation

Medical and rehabilitation coverage under the Michigan plan is unlimited for all reasonable and necessary hospital and rehabilitative charges, including vocational rehabilitation.

Funeral Expenses

The Michigan plan provides for $1,000 in funeral and burial expenses.

Death Benefits

The dependant survivors of a deceased insured are entitled to the wage replacement which the insured would have received, had he lived and been disabled, and to replacement services assistance, both for a maximum of three years.

The Effect Of The No-Fault System In Michigan

It is estimated by a study that the Michigan no-fault system eliminates 94 percent of all claims for damages for non-economic loss.

B. SIGNIFICANT COMPARISONS

1. Non-Economic Losses

Manitoba's current plan provides open access to the court for the recovery of non-economic losses up to a limit approaching $190,000. It is necessary to prove negligence to qualify for any economic, or non-economic, benefit through this process. In lieu of suit to recover non-economic losses through a judgement of the Court, the Manitoba plan provides impairment benefits to a maximum limit of $20,000. Negligence need not be proved to be eligible for this benefit.

Quebec's pure no-fault system bars access to the court for the recovery of any losses. In lieu of non-economic losses recovered through the judgement of the Court, the Quebec plan presently provides impairment benefits to a maximum of $38,780. Negligence need not be proved.

The U.S. jurisdictions with modified no-fault plans restrict court access to those cases in which the injuries are among the more serious. In those cases, non-economic losses may be sought through a judgement of the court. It is necessary to prove negligence to qualify for any economic or non-economic benefit through this process. Those whose injuries are not among the more serious are barred from the court process for the recovery of non-economic losses. Michigan was one of the earliest states to experiment with the concept of modified or threshold no-fault. The benefits under its plan do not include any compensation for non-economic losses.

2. Income Replacement

The Manitoba plan provides benefits in the nature of income replacement, without proof of negligence, in sums ranging from $150 per week minimum to $300 per week maximum for as long as the disability lasts.

The Quebec plan provides for a minimum replacement benefit of $164.24 per week plus $20.54 per week for each dependent up to a maximum of $287.48 per week. It provides a maximum income replacement benefit of $465.26 per week to an employed person with three dependents. The benefit is payable for as long as disability lasts.

The Manitoba plan provides a totally disabled homemaker with a benefit in the nature of income replacement in the maximum sum of $150 per week.

The Quebec plan provides a totally disabled homemaker with income replacement benefits up to a maximum of $307.95 per week to defray the costs of needs such as childcare assistance and domestic help.

The Manitoba plan provides children with disability benefits if on their eighteenth birthday they remain disabled as a result of injuries sustained in the accident. The maximum payable for total disability is $150 per week.

The Quebec plan provides children under 16 with an income replacement benefit of $164.24 per week if they are unable to engage in the normal activities of those in their age group. If still disabled at 16 as a result of injuries sustained in an accident, they become entitled to an income replacement benefit of $288.94 per week.

Students in Quebec, 16 years of age or older, who were employed at the time of an accident from which they are disabled, are entitled to an income replacement benefit equal to the amount of their pre-accident weekly earnings, or $164.24 per week, whichever is greater. An injured student who is able to return to his or her studies but whose entry into the labor market, full time, is delayed because of injuries, is entitled for the duration of the delay to $216.71 per week if he or she is studying at the secondary level of education and $288.94 per week if he or she is studying at the post secondary level.

The Manitoba plan provides for a benefit in the nature of income replacement for partial disability. The maximum benefit is $60 per week for a maximum of 104 weeks.

Quebec does not provide an exact equivalent of Manitoba's partial disability benefit. A person in Quebec is entitled to an income replacement indemnity for an initial period of five years. If he or she remains disabled at the termination of five years, the benefit continues. If, however, that person can and does return to work in some capacity at less than his or her former earnings, his or her income replacement benefits, though reduced, continue in an amount which added to the salary earned, will amount to more than the amount of his or her income replacement benefit before returning to work. In this way, the regie encourages rehabilitation while significantly reducing its own losses.

The Michigan no-fault plan provides income replacement benefits to a maximum of $2659 per month, for a maximum of three years. It provides, also, for services replacement of up to $20 per day for three years.

3. Death Benefits

The Manitoba plan provides a lump sum death benefit of $10,000 to a surviving spouse or primary dependent and $2,000 to each secondary dependent.

The Quebec plan does not provide for lump sum benefits. It provides rather that the victim's spouse is entitled to 55 percent of the benefit to which the victim would have been entitled had he or she lived and been unable to work. In the case of spouse who is under the age of 35, is childless, and is not disabled, the benefit discontinues after five years. If the spouse is left with one child, the benefit is 65 percent of that benefit which the victim would have received had he or she survived and been unable to work. For each dependent above one, the surviving spouse becomes entitled to an additional five percent up to a maximum of 90 percent of the benefit that the victim would have received had he or she survived and been unable to work. The minimum payable, however, is $164.24 per week plus $20.54 per week for each dependent up to $287.48 per week.

The Michigan plan provides for a benefit to the survivors equivalent to that which would have been received by the insured, for a maximum of three years, as well as $20 per day for services replacement.

4. Medical Benefits

The Manitoba plan provides for a maximum of $100,000 for medical coverage. To the extent which that sum is not exhausted, the excess may be applied toward rehabilitation.

The Quebec plan contains no limitation upon medical benefits.

The Michigan plan provides unlimited medical coverage for all reasonable and necessary hospital and rehabilitative charges.

5. Indexation

The Manitoba plan provides for no indexation of benefits.

The Quebec plan provides for indexation of benefits upon the same basis as that upon which Quebec pensions are indexed.

Under the Michigan plan, income replacement benefits are indexed.

6. Collateral Insurance

The Manitoba plan does not reduce benefits by reason of collateral insurance.

The Quebec plan does not reduce benefits by reason of collateral insurance.

C. ALTERNATIVE DISPUTE RESOLUTION

In the United States, and more recently in the province of British Columbia, programs have been initiated or are in place to discourage recourse to the courts for the settlement of bodily injury claims. New Jersey, Washington, and Oregon have alternative dispute resolution mechanisms in place. British Columbia has commenced a pilot project.

1. Experience in Individual States

Washington, Oregon and New Jersey have each instituted mechanisms for compulsory arbitration for claims up to $15,000. Based upon their research, Cramer and Armstrong have reviewed only the New Jersey mechanism, because that mechanism deals exclusively in automobile tort actions. The other states handle, as well, a variety of other civil claims.

The $15,000 ceiling is a presumptive ceiling based upon actual medical expenses of up to $2,500 or less. The presumption, as I understand it, is that if a victim's condition results in medical expenses of $2,500 or less, his or her award under the tort system for pain and suffering, and loss of enjoyment of life would be a maximum of $15,000. Such claims may not be litigated through the court. They must be settled through the arbitration procedure. Claims exceeding $15,000, moreover, may be ordered into arbitration "provided the claim is not novel or unduly complex or if all the parties consent to the process". Arbitrators are selected according to rules designed to provide safeguards as to experience, skill, qualifications, fairness and reasonable costs. Cost sanctions discourage appeals to the court and reduce the burden of court congestion."

The purpose of the New Jersey mechanism is described as:

> "to establish a system of settling automobile negligence claims in an 'expeditious and least costly manner'" and
>
> "to ease the burden and congestion of the state courts".[19]

It is suggested that some 30 to 40 percent of cases would be diverted from the court through this mechanism. It is noted, however, that the mechanism permits a rehearing of all the evidence on appeal to the court. Some of the cases, therefore, would enter the court system at a later date, in any event.[20]

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[19] Ibid 42

[20] Ibid 43

2. Pilot Project in British Columbia

A pilot project in British Columbia is innovative. In concept it is a mediation process, whereby persons who have initiated court proceedings in automobile accidents cases, may agree to non-binding mediation. The mediation is conducted through a British Columbia statutory agency called the International Commercial Arbitration Centre. The agency had been established, initially, to mediate international commercial disputes. There is an attempt, however, to utilize its resources to mediate disputes in automobile accident cases, particularly disputes relating to the issue of quantum of damages. Cramer and Armstrong have reported that a total of 19 cases have been mediated and settled through this process. While there is a one and a half year waiting period in British Columbia for a court date, the waiting period to bring a case before a mediator is only three months. It is reported that in terms of costs, cases handled, thus far, have been resolved, on average, in 3.5 hours rather than a full day or days in court.

The Commission's consultants have offered the following assessments and opinions:

> "To be a truly effective alternative to the court system, arbitration should replace in total the court process and eliminate the right of appeal. To do this in an acceptable way, one must ensure that some guidelines be codified and monitored to ensure that clients and their attorneys are satisfied that a new system does not simply replace one abuse with another and that the potential for satisfaction is enhanced rather than diminished.
>
> "To court the real acceptance by the public and the bar association of an alternate method of dispute resolution, an endeavour should be made in

consultation with the users to ensure that the following safeguards be considered:

- Impartial arbitrators.
- A fair hearing.
- High quality of adjudication.
- Flexibility as to procedures.
- Opportunity to be heard without a lawyer, if desired.
- Reasonable cost.
- Expeditious handling.
- Uncomplicated process.
- Binding resolution with limited judicial review."

Concerning arbitration, it is noted by the commission's consultant that many U.S. lawyers see arbitration as a viable alternative to litigation, but others point out that arbitration awards are characterized by compromise and that compromise erodes the position of the plaintiff who may see the court's protection as his last chance to present his case fully. The commission's consultants, however, are of the opinion that "With some innovation and imagination, a well run, inexpensive system could be designed which would encourage people to risk their positions in exchange for a guarantee of cost control and quality effect." They advise that:

> "Lawyers, of course, find it most difficult to be weaned away from what is ingrained in their early education. Yet, if they examine objectively their clients' positions, they usually find a reluctant litigant who needs some degree of urging to venture forth before the court. Often the defendant has the reasons and the resources to utilize all of the delaying tactics available and the pre-trial processes once designed as a reform becomes a tool for exhausting the time, resources and patience of the plaintiff. Sometimes as a

> result, he ends up after years of involvement, expense and aggravation, opting for a settlement which might have been brought about in the first instance had a different vehicle been available."[21]

I cannot accept the view that an arbitration procedure should replace the present system of tort recovery. As it developed its regime, an arbitration board with exclusive jurisdiction in automobile accident cases would likely become almost as formal and delaying as the present system. However, as a non-compulsory mechanism through which parties agree to mediate before a board established for that purpose, there might well be some savings both in costs and in reduction of delay.

VI. COSTING OF NO-FAULT ALTERNATIVES

With the exception of simple cost-cutting measures, such as increasing deductibles and reducing benefits, no realistic alternatives to the present Autopac insurance plan could be proposed or recommended without professional advice and assistance addressed to the financial viability of any alternative. The commission, therefore, retained the actuarial firm Tillinghast, a Towers Perrin company. I instructed the commission's consultants, Cramer and Armstrong, to prepare three specific models for costing by Tillinghast.

The models which follow are to test what cost savings might be achieved in Manitoba:

- By reducing only slightly the costs of the tort system and by increasing the no-fault benefits.

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[21] Ibid 48

- By adopting a modified no-fault plan based on a verbal threshold which would eliminate from the court process claims for non-pecuniary loss of $2,500 or less, and increase the no-fault benefits.

- By adopting a pure no-fault system wherein court access is barred and no-fault benefits including benefits for non-pecuniary losses would be increased.

In each of the models which follow, I have adapted Tillinghast's tables to compare benefits, line by line, between the present plan and the model proposed.

Tillinghast prefaces its report in part as follows:

> "In developing this analysis, we have relied on information provided by the Manitoba Public Insurance Corporation as well as outside sources such as Statistics Canada, Revenue Canada and the Regie d'assurance automobile du Quebec. We relied upon the general accuracy of this information without independent verification. However, we have reviewed the information for reasonableness and consistency and in some cases we have adjusted inconsistencies.
>
> "In some instances where the data was not available we were forced to rely on assumptions. These assumptions which are based on our knowledge of the insurance industry, are clearly identified in Exhibits 2 to 4.
>
> "In performing this analysis we have employed techniques and assumptions that we believe are appropriate and we believe our conclusions to be reasonable, given the information currently available. However it should be recognized that the lost cost estimates under the systems of compensation considered herein are likely to deviate, perhaps substantially, from our estimates."

The information, estimates and opinions attributed to Tillinghast are extracted from that firm's much larger report which is contained in Appendix L, Volume 2 in the research project report prepared for the commission entitled Potential Changes in Manitoba's Public Insurance Corporation Plan for Motor Vehicle Accident Injury and Death. The full text of the Tillinghast report, as well as all other reports, are to be lodged with the Autopac review commission records at the Manitoba public archives.

A. MODEL ONE - ENRICHMENT OF CURRENT AUTOPAC NO-FAULT BENEFITS

Under this model the present no-fault benefits would be increased. Pre-judgement interest on tort recovery would be decreased. Collateral benefits such as UIC, workers compensation, old age security and Canada pension plan (but not collateral insurance benefits), would apply to reduce benefits. Under the proposal the pre-judgement interest rate would be capped at three percent and seven percent for non-pecuniary and pecuniary losses respectively, instead of 3.5 percent and the bank rate plus one percent, respectively, which are the rates applied to pre-judgement interest presently.

A comparison of the present plan and that proposed in this model is designed to determine if, through some modest measures to limit the extent of tort recovery, the no-fault benefits under the present plan could be increased to a more acceptable level, while still reducing the overall costs of Autopac.

	CURRENT BENEFITS	MODEL BENEFITS
i. Funeral Expenses	$2,500	$3,500
ii. Medical and Rehabilitation Expenses	$100,000	$200,000
iii. Impairment Benefits	$20,000 maximum	$20,000 -- indexed by the Provincial CPI Growth Rate*
iv. Death Benefits	$10,000 to primary dependant	$25,000 to primary dependant

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* See p. 69.

(Model 1, Add-on No-Fault)

CURRENT BENEFITS	MODEL BENEFITS
2,000 to each secondary dependant	$5,000 to each secondary dependant
If no dependants are entitled: $4,000 divided equally among brother(s), sister(s) and non-dependant child(ren) that were provided for by the insured	If no dependants are entitled: $10,000 divided equally among brother(s), sister(s) and non-dependant child(ren) partly provided for by the insured
$2,000 to supporting parents of a child under 18 years	$5,000 to supporting parents of a child under 18 years
$2,000 to parents of a son or daughter over 18 who leaves no surviving wife or husband	$5,000 to parents of a son or daughter over 18 who leaves no surviving wife or husband

v. Disability Benefits

a) Total Disability

Wage Earners:	Formula benefit: 70 percent of average weekly gross earnings from employment	Formula benefit: 90 percent of average weekly net earnings from employment
	Minimum benefit: $150/week	Minimum benefit: None
	Maximum benefit: $300/week	Maximum benefit: $500/week
	Maximum duration: None	Maximum duration: None
	Waiting period: 1 week	Waiting period: 1 week

(Model 1, Add-on No-fault)

	CURRENT BENEFITS	MODEL BENEFITS
	Indexation: None	Indexation: Annual growth rate of average industrial composite index of wages
Non Wage Earners:	Benefit: $150/week	90 percent of weekly minimum wage
	Maximum duration: None	Maximum duration: None
	Waiting period: 1 week	Waiting period: 1 week
	Indexation: None	Indexation: Annual growth rate of average industrial composite index of wages
	Children:	Non-wage Earners: Post high school students and children 16 to 18;
	Benefit: $150/week	Benefit: 90 percent weekly minimum wage
		Minimum benefit: None
	Duration: As long as claimant remains disabled	Duration: As long as the claimant remains disabled

(Model 1, Add-on No-fault)

	CURRENT BENEFITS	MODEL BENEFITS
	Maximum duration: None	Maximum duration: None
	Waiting period: Until his/her 18th birthday	Waiting period: The greater of 1 week or graduation date (students) The greater of 1 week or his/her 18th birthday (children) 1 week (homemaker)
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages
Homemakers:	Benefit: $150/week	90 percent of weekly minimum wage
	Duration: As long as the claimant remains disabled	Duration: As long as claimant remains disabled
	Maximum duration: None	Maximum duration: None
	Waiting period: 1 week	Waiting period: 1 week
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages

(Model 1, Add-on No-fault)

	CURRENT BENEFITS	MODEL BENEFITS
b. Partial Disability		
Wage Earners:	Benefit: $60/week	Benefit: 100 percent of weekly net average wage loss
	Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
	Maximum duration: 104 weeks	Maximum duration: None
	Waiting period: 1 week	Waiting period: 1 week
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages
Non-Wage Earners:	Children:	Non wage earners: Post high school students; children 16 to 18;
	Benefit: $60/week	Benefit: percentage of the total disability benefit based on the degree of partial disability inflicted
	Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
	Maximum Duration: 104 weeks	Maximum Duration: None

(Model 1, Add-on No-fault)

	CURRENT BENEFITS	MODEL BENEFITS
	Waiting Period: Until his/her 18th birthday	Waiting Period: The greater of 1 week or graduation date (students) The greater of 1 week or his/her 18th birthday (children)
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages
Homemakers:	Benefit: $60/week	Benefit: percentage of the total disability benefit based on the degree of partial disability inflicted
	Duration: As long as the claimant remains disabled.	Duration: As long as the claimant remains disabled
	Maximum Duration: 104 weeks	Maximum Duration: None
	Waiting Period: 1 week	Waiting Period: 1 week
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages

(Model 1, Add-on No-fault)

Actuary's Financial Assessment

Costing the proposal for additional add-on benefits and reduced expenses, as above noted, Tillinghast estimates that in 1987 incurred losses would have increased by $2.9 million or 1.3 percent. Tillinghast's statement is as follows:

> "Under this scheme incurred losses would have increased by $2.9 million or 1.3 percent. The enhancement of the no-fault benefits results in a $6.4 million increase mostly due to improved compensation for income replacement and death benefits. This increase is partially offset by $3.5 million reduction in bodily injury liability losses. Most of the reduction in bodily injury losses results from the impact of the higher no-fault benefits. We estimate that the capping of the prejudgement interest rate and the consideration of collateral benefits in tort awards have only a minor impact on tort awards. The details of the calculation are shown in Exhibit II. We have also provided an indication with regards to an increase in funeral benefits from the proposed $3,500 to $5,000 in Appendix K. This increase would increase the cost of the proposed system by an additional $355,000."[21]

Provincial CPI Growth Rate

* Fiscal Accident Year	Maximum Under Current System	Discounted Maximum Under Current System	Maximum Under Proposed System	Discounted Maximum Under Proposed System
1987	$20,000	$20,000	$21,000	$21,000
1988	$20,000	$18,519	$22,050	$20,417
1989	$20,000	$17,147	$23,153	$19,850
1990	$20,000	$15,877	$24,310	$19,298
1991	$20,000	$14,701	$25,526	$18,762
1992	$20,000	$13,612	$26,802	$18,241
1993	$20,000	$12,603	$28,142	$17,734
1994	$20,000	$11,670	$29,549	$17,242
1995	$20,000	$10,805	$31,027	$16,763
1996	$20,000	$10,005	$32,578	$16,297
Total		$144,938		$185,603

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[21] Vol. 2, Schedule M p.5

(Model 2 - Modified No-fault)

B. MODEL TWO - MODIFIED NO-FAULT BENEFITS

Under this model, the recovery of non-pecuniary losses would be restricted to those cases where the victim suffered "serious permanent injury or fatality". One of the costing assumptions in this model is that the verbal threshold in claims against parties at fault would eliminate non-pecuniary losses of $2500 or less. A comparison between the present no-fault benefits and those proposed in this model is as follows:

	CURRENT BENEFITS	MODEL BENEFITS
i. Funeral Expenses	$2,500	$3,500
ii. Medical and Rehabilitation Expenses	$100,000	$200,000
iii. Impairment Benefits	$20,000	$200,000 maximum to be annually indexed by the provincial CPI growth rate
iv. Death Benefits		
One dependant:	$10,000 to the primary dependant	55 percent of permanent weekly disability benefit
Two dependants:	$2,000 to each secondary dependant	65 percent of permanent weekly disability benefit

(Model 2, Modified No-fault)

PRESENT	PROPOSED
Three dependants:	70 percent of permanent weekly disability benefit
Four dependants:	75 percent of permanent weekly disability benefit
Five dependants:	80 percent of permanent weekly disability benefit
Six dependants:	85 percent of permanent weekly disability benefit
Seven dependants:	90 percent of permanent weekly disability benefit
If no dependants are entitled:	
$4,000 divided equally among brother(s), sister(s), and non dependant child(ren) that were partly provided for by the insured	
$2,000 to supporting parents of a child under 18 years of age.	
$2,000 to parents of a son or daughter over 18 which leaves no surviving wife or husband.	

(Model 2 - Modified No-fault)

v. Disability Benefits

b. Total Disability

	CURRENT BENEFITS	MODEL BENEFITS
Wage Earners	Formula benefit: 70 percent of average weekly gross earnings from employment	Formula Benefit: 90 percent of average weekly net earnings from employment
	Benefit offsets: The excess of any wage or profit during the period of disability and benefits payable over 70 percent of the gross weekly earnings from all sources	Benefit offsets: The excess of any wage or profit during the period of disability and benefits payable over 90 percent of the gross weekly earnings from all sources
	Minimum Benefit: $150/week	Minimum Benefit: None
	Maximum Benefit: $300/week	Maximum Benefit: $500/week
	Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
	Maximum Duration: None	Maximum Duration: None
	Waiting Period: 1 week	Waiting Period: 1 week
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages
Non Wage Earners:	Benefit: $150/week	Benefit: 90 percent weekly minimum wage

(Model 2 - Modified No-fault)

CURRENT BENEFITS	MODEL BENEFITS
Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
Maximum Duration: None	Maximum Duration: None
Waiting period: 1 week	Waiting period: 1 week
Indexation: None	Indexation: Annual growth rate in average industrial composite index of wages
Children:	**Non-wage Earners**: Post high school students and children 16 to 18
Benefit: $150/week	Benefit: 90 percent weekly minimum wage.
Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
Maximum Duration: None	Maximum Duration: None
Waiting period: From his/her 18th birthday if disability remains	Waiting period: The greater of 1 week or graduation date (students) The greater of 1 week or his/her 18th birthday (children) 1 week (homemaker)

(Model 2 - Modified no-fault)

	CURRENT BENEFITS	MODEL BENEFITS
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages
Homemakers:	Benefit: $150/week	Benefit: 90 percent weekly minimum wage
	Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
	Maximum Duration: None	Maximum Duration: None
	Waiting period: 1 week	Waiting period: The greater of 1 week or graduation date (students) The greater of 1 week or his/her 18th birthday (children) 1 week (homemaker)
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages

b. Partial Disability

Wage Earners:	Benefit: $60/week	Benefit: 100 percent of the weekly net average wage loss
	Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
	Maximum Duration: 104 weeks	Maximum Duration: None

(Model 2 - Modified No-fault)

	CURRENT BENEFITS	MODEL BENEFITS
	Waiting Period: 1 week	Waiting Period: 1 week
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages
	Children:	**Non-wage Earners:** Post high school students and children 16 to 18
	Benefit: $60/week	Benefit: 100 percent of the weekly net average wage loss
	Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
	Maximum Duration: 104 weeks	Maximum Duration: None
	Waiting Period: To his/her 18th birthday	Waiting Period: 1 week
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages
Homemakers:	Benefit: $60/week	Benefit: 90 percent weekly minimum wage
	Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled

(Model 2 - Modified No-fault)

CURRENT BENEFITS	MODEL BENEFITS
Maximum Duration: 104 weeks	Maximum Duration: None
Waiting Period: 1 week	Waiting Period: (Homemaker) 1 week (Students) The greater of 1 week or graduation date (Children) The greater of 1 week or his/her 18th birthday
Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages

Actuaries' Financial Assessment

Under the modified no-fault model above, Tillinghast estimates that, in 1987, incurred losses would have been reduced by $23.5 million or 10.3 percent. He reports as follows:

> "Under this system the 1987 incurred losses would have been reduced by $23.5 million or 10.3 percent. We estimate that first party benefits would increase by about $12.3 million and bodily injury losses would be reduced by about $35.8 million. This estimate contemplates using a verbal threshold that would aim at eliminating all non-pecuniary loss awards of $2500 or less. In Appendix K we have also estimated the impact of a threshold that would aim at eliminating non-pecuniary awards of $5,000 or less. Such thresholds would have further reduced the 1987 losses by $4.8 million dollars."

C. MODEL THREE - PURE NO-FAULT BENEFITS

In this model, except for the negligence of Manitoba insured drivers operating a motor vehicle outside of Manitoba, claims based upon the negligence of the party at-fault are barred.

For this model the following is a comparison of present no-fault benefits and those proposed, given no tort recovery:

	CURRENT BENEFITS	MODEL BENEFITS
i. Funeral Expenses	$2,500	$3,500
ii. Medical and Rehabilitation Expenses	$100,000 maximum	$200,000
iii. Impairment Benefits	$20,000 maximum	$200,000 maximum
iv. Death Benefits		
One Dependant:	$10,000 to the primary dependant	55 percent of permanent weekly disability benefit
Two Dependents:	$2,000 to each secondary dependant	65 percent of permanent weekly disability benefit

(Model 3, Pure No-Fault)

CURRENT BENEFITS	MODEL BENEFITS
Three Dependants:	70 percent of permanent weekly disability benefit
Four Dependants:	75 percent of permanent weekly disability benefit
Five Dependants:	80 percent of permanent weekly disability benefit
Six Dependants:	85 percent of permanent weekly disability benefit
Seven Dependants:	90 percent of permanent weekly disability benefit
If no dependants are entitled: $4,000 divided equally among brother(s), sister(s), and non dependant child(ren) that were partly provided for by the insured $2,000 to supporting parents of a child under 18 years of age. $2,000 to parents of a son or daughter over 18 which leaves no surviving wife or husband.	

(Model 3, Pure No-Fault)

	CURRENT BENEFITS	MODEL BENEFITS
v. Disability Benefits		
a. Total Disability		
Wage Earners	Formula benefit: 70 percent of average weekly gross earnings from employment	Formula Benefit: 90 percent of average weekly net earnings from employment
	Benefit offsets: The excess of any wage or profit during the period of disability and benefits payable over 70 percent of the gross weekly earnings from all sources	Benefit offsets: The excess of any wage or profit during the period of disability and benefits payable over 90 percent of the gross weekly earnings from all sources
	Minimum Benefit: $150/week	Minimum Benefit: None
	Maximum Benefit: $300/week	Maximum Benefit: $500/week
	Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
	Maximum Duration: None	Maximum Duration: None
	Waiting Period: 1 week	Waiting Period: 1 week
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages
Non Wage Earners:	Benefit: $150/week	Benefit: 90 percent weekly minimum wage
	Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled

(Model 3, Pure No-Fault)

CURRENT BENEFITS	MODEL BENEFITS
Maximum Duration: None	Maximum Duration: None
Waiting period: 1 week	Waiting period: 1 week
Indexation: None	Indexation: Annual growth rate in average industrial composite index of wages
Children:	Non-wage Earners: Post high school students and children 16 to 18
Benefit: $150/week	Benefit: 90 percent weekly minimum wage.
Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
Maximum Duration: None	Maximum Duration: None
Waiting period: From his/her 18th birthday if disability remains	Waiting period: The greater of 1 week or graduation date (students) The greater of 1 week or his/her 18th birthday (children) 1 week (homemaker)
Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages

(Model 3, Pure No-Fault)

	CURRENT BENEFITS	CURRENT BENEFITS
Homemakers:	Benefit: $150/week	Benefit: 90 percent weekly minimum wage
	Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
	Maximum Duration: None	Maximum Duration: None
	Waiting period: 1 week	Waiting period: 1 week
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages

b. Partial Disability

Wage Earners:	Benefit: $60/week	Benefit: 100 percent of the weekly net average wage loss
	Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
	Maximum Duration: 104 weeks	Maximum Duration: None
	Waiting Period: 1 week	Waiting Period: 1 week
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages

(Model 3, Pure No-Fault)

	CURRENT BENEFITS	MODEL BENEFITS
	Children:	Non-wage Earners: Post high school students and children 16 to 18
	Benefit: $60/week	Benefit: Percentage of the total disability benefit based on the degree of partial disability inflicted
	Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
	Maximum Duration: 104 weeks	Maximum Duration: None
	Waiting Period: To his/her 18th birthday	Waiting Period: 1 week
	Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages
Homemakers:	Benefit: $60/week	Benefit: Percentage of the total disability benefit based on the degree of partial disability inflicted

(Model 3, Pure No-Fault)

PRESENT	PROPOSED
Duration: As long as the claimant remains disabled	Duration: As long as the claimant remains disabled
Maximum Duration: 104 weeks	Maximum Duration: None
Waiting Period: From his/her 18th birthday	Waiting Period: 1 week
Indexation: None	Indexation: Annual growth rate in the average industrial composite index of wages

Actuaries' Financial Assessment

Under this model Tillinghast estimates that in 1987 incurred losses would have been reduced by $39.8 million. His report is as follows:

> "For this scheme, a 17.5 percent or $39.8 million reduction in incurred losses is estimated. Since tort recovery is eliminated then the entire $59.3 million incurred in 1987 for bodily injury liability will disappear and be replaced by scheduled benefits for both pecuniary and non pecuniary losses. We estimate that the scheduled benefits would increase by $19.5 million."

D. EXTENSION INSURANCE FOR DISABILITY BENEFITS

Model 3 contains provisions for income replacement benefits to a maximum of $500 per week. Assuming that Manitoba were to adopt Model 3, there would be those whose net incomes are more than that sum and, for them, that maximum is likely to be seen as inadequate. For those cases, it should be a simple matter for the corporation or for private sector insurance companies to offer extension coverage through which an insured may protect himself or herself in terms of income replacement to a higher limit.

E. SUMMARY OF MODELS

- The modest reduction of the right to recover losses under the tort system while enhancing the no-fault benefits under Autopac would be more costly than the present plan. Reducing recovery under the tort system more than is envisaged by the model, and enhancing the no-fault accident benefits less than envisaged by the model, would have shown a better financial result at the cost of benefits available.

- A modified no-fault plan, which would allow tort recovery for non-pecuniary losses above $2500, would permit an increase in disability benefits of 60 percent from $300 to $500 per week, an increase in medical benefits of double the present benefit from $100,000 to $200,000 and an increase in other benefits in various smaller percentages. Impairment benefits would increase by the annual increase in the consumer price index. This plan, it is estimated, would have resulted in reduced costs for 1987 of $23.5 million. This model does not contemplate any compensation for pain and suffering arising out of soft tissue injuries.

- A pure no-fault plan,which prohibits tort recovery, would permit a 60 percent increase in disability benefits from $300 to $500 per week maximum, an increase in medical benefits to double the present benefit from $100,000 to $200,000 and smaller percentage increases in other benefits, except for impairment benefits which would increase by 1000 percent from $20,000 to $200,000. This plan, it is estimated, would have resulted in reduced costs for 1987 of $39.8 million dollars. The Tillinghast report does not indicate whether impairment benefits would include compensation for soft tissue injuries such as whiplash. Questioned by telephone, the commission was advised by Tillinghast that the model contemplated an average payment of $500 for such claims.

VII. INSURANCE CONSIDERATIONS

A. PERSONS PROTECTED

Automobile insurance was, historically, and remains primarily a system to protect an insured motorist from financial responsibility to another who has sustained bodily injury or death, or property damage, because of the negligence of the insured motorist. Only secondarily, outside of Quebec, has some automobile insurance included provisions to protect people generally from destitution in the event they suffer personal disabling injuries as a result of their own negligence in a motor vehicle accident, or in the event that for any reason, excluding their own negligence, they cannot establish the negligence of another party.

The benefits to the insured motorist, under Autopac, are not adequate for the reasonable maintenance and sustenance of those who are seriously and permanently disabled:

- Through their own negligence.
- Through the negligence or fault of another which cannot be proved.

- Through an accident involving no negligence.
- Through being an uninsured pedestrian struck by an underinsured driver.
- Through not realizing the importance of "underinsured motorist" coverage.

B. NON-ECONOMIC LOSSES

One of the serious criticisms of the pure no-fault system is that injured parties cannot obtain compensation for non-economic losses, such as pain and suffering, and loss of enjoyment of life. Impairment benefits, however, are in the nature of compensation for non-economic losses. Under the pure no-fault model above, Tillinghast estimates that maximum impairment benefits could be increased to $200,000, a sum which is somewhat more than that presently permitted by law through the tort system.

C. NEGLIGENCE

The tort system:

- Operates upon a standard that does not recognize normal human mistakes.
- May fail to apply that standard consistently.
- Does not provide compensation to victims who fail to meet that standard.
- Does not compensate innocent victims if it cannot be proven that the other party failed to meet that standard.

Given human frailty and the unexpected, accidents are inevitable and will be the fault, at times, of ordinarily careful drivers. I would view as incredible the statement of any driver who claims that he or she has not, on more than one occasion, committed an error in driving that, but for luck, would have resulted in an accident. That on some of those occasions accidents will occur, and the at-fault driver will be seriously and permanently disabled as a result, is undeniable.

Accident insurance which discriminates between those entitled to adequate compensation and those not so entitled on the basis of luck is not insurance. It is a game of chance, with high stakes.

D. THE PRINCIPAL ISSUE

The principal issue, as I perceive it, arises out of the conclusion that as a device for the compensation of injured victims, application of the concept of negligence or fault is fundamentally inequitable because:

- It can fail to compensate at all some who are entirely innocent of negligence.
- It can fail to compensate to an acceptable level those who are innocent of negligence simply because the negligent party is not well enough insured.
- It will not compensate those ordinarily careful drivers who, through momentary lapse, are negligent.

Given that conclusion, the principal issue is whether the concept of fault in automobile accident cases resulting in bodily injuries should be retained or discarded.

The criminal law is designed specifically to punish people for acts that are culpable. Provincial regulatory statutes, such as The Highway Traffic Act, contain penalties for acts considered less serious than crimes. Insurance companies, including The Manitoba Public Insurance Corporation, may penalize, in terms of increased premiums, those drivers whose conduct behind the wheel promotes the likelihood of greater than ordinary risk.

Mr. Justice Osborne says:

> "Apart from the suicidal there is no doubt that drivers do not intend or want to be involved in an accident. Some drivers, however, seem to believe that however fast or reckless their driving may be, they will somehow not have an accident. For that group the prospect of criminal sanctions is too remote. The Highway Traffic Act's penalties are seen as a cost of mobility. For that fringe group, the prospect of formalized responsibility through tort law and the tort system may work in some small but real way to deter the kind of driving behavior that leads to accidents. At that level, deterrence may be lost by converting from the tort system to a no-fault system.
>
> "Conclusions on the deterrence issue must remain somewhat uncertain. Nevertheless if we are rightly concerned about social attitudes and their appropriate development in the context of driver behavior then we should be cautious about doing anything which might adversely affect attitudes of basic responsibility. Accountability, however abstract and even mysterious as it may be in its manifestation, may well in the longer term support the development of what Dr. White refers to as the 'competent and responsible' driver role. Given the huge social cost of motor vehicle accidents in our society, one must question the appropriateness of abolishing a system which may exercise some effect on accident prevention even if that effect can not be measured statistically. Moreover, even if the tort system is taken to have no capacity to deter in its own right, it may well be that the introduction of no-fault compensation will lead to some, probably slight, reduction in driver care."
> (Page 542)

Respectfully, I cannot concur with that view. That a fringe group of reckless drivers who will not be deterred by Criminal Code sanctions, including jail, or by Highway

Traffic Act penalties, may nonetheless be deterred by "the prospect of formalized responsibility through tort law and the tort system" is, in my opinion, too weak, and too remote a possibility upon which to retain a system which is vitally defective in terms of equity and onerous in terms of cost.

The object is to deter, however slightly, that fringe group which drives recklessly. A system which must subject a majority of people who are normally careful to the possibility of severe prejudice for an occasion of inadvertent negligence, in the mere hope of detering the negligence of a fringe group, has little to commend it.

Whatever deterrent value may flow from the tort system is far outweighed by the potentially tragic consequences of a mistake by a driver who is usually prudent.

The tort system is no longer an appropriate method of determining who shall be and who shall not be entitled to adequate compensation for bodily injuries sustained in a motor vehicle accident.

Assessment of Priorities

As Professor Osborne points out, insurance for negligence was initially conceived to protect those who, in an industrial age, through the conduct of inherently dangerous activities, might suffer financial catastrophe upon being the cause of an injury to another party. Over the past several decades, liability insurance itself was seen by many as insufficient in the absence of insurance which would assist those among the injured who could not prove that someone else was negligent. Thus, over the period of the past several decades, first party no-fault insurance in a variety of forms has been made compulsory by law. Except in Quebec, the jurisdictions which have provided first party no-fault benefits make no pretense at providing adequate compensation universally for the seriously injured and disabled through automobile accidents.

Minor injuries are disruptive and uncomfortable, but not tragic. It is, in my opinion, the potential to be injured critically and disabled permanently that motorists should most fear. It is for that eventuality that insurance should make uncontested access to an acceptable level of compensation available. If it is necessary to compensate minor injuries less generously than at present in order to assist in the financing of adequate compensation for those severely and permanently disabled, it is appropriate, in my opinion, to do so. The largest portion of insurance premiums pays for vehicle repairs and for minor injuries. To the extent that it may be necessary to limit those benefits within an affordable insurance plan designed to restore, to a reasonably comfortable standard, individuals who have suffered catastrophic personal injuries, they should be limited.

E. CONSTITUTIONALITY

There are questions as to whether an insurance system which restricts or bars court access would be held to be constitutionally valid. In Quebec, which is the only jurisdiction that has barred court access in automobile accident cases, there has been no constitutional challenge. That may indicate a fair degree of satisfaction with the no-fault plan in Quebec.

In the United States, there have been several constitutional challenges to the threshold no-fault systems which partially restrict court access. Of six U.S. decisions referred to the commission by its consultant, five ruled that restriction of access to the Court, by virtue of modified no-fault plans, was constitutional. Since my function in this review is not to judge but rather to review and make recommendations, I am reluctant to express an opinion as to the constitutional validity of a proposed pure no-fault plan in Manitoba. I note, however, that in the Ontario inquiry Mr. Justice Osborne was not as timid. The constitutional issues are considered by him at length in Chapter 14 of his report. He concludes as follows:

> "In my opinion, replacing a tort action with a no-fault plan does not violate the principles of fundamental justice (page 623).
>
> "An automobile no-fault plan does not infringe section 15 of the Charter" (pages 630 - 631 and succinctly stated at page 58).

He deals also with other constitutional issues relevant to traditional insurance ratings, such as age, sex and marital status. In his opinion, while sex and marital status would probably not withstand constitutional challenge, age as a criterion upon which to fix premiums might survive a challenge.

The constitutional validity of an insurance plan which restricts access to the court is a question upon which there should be certainty before any such plan is embarked upon. The government has the means to test it judicially by a constitutional reference to the Court of Queen's Bench or Court of Appeal. It may well be, however, that the resolution of a very similar issue now pending in the Supreme Court of Canada, which I understand is to be heard by that court on February 1, 1989, will obviate a reference to the court in Manitoba. There are conflicting decisions in Canada concerning the validity of workers compensation plans which bar access to the court. It is one of those that is presently before the Supreme Court.

F. THE CHOICE OF NO-FAULT PLAN

In my opinion,

- The add-on no-fault plan, which is presently the Manitoba plan, is no longer viable either in terms of cost or insurance protection.
- The modified no-fault or threshold no-fault proposal is not a preferred alternative for Manitoba because, for serious cases, fault determines entitlement to adequate compensation.
- Considering both costs and benefits, a pure no-fault plan based upon the model referred to in this paper, supplemented by optional extension coverage, would bring a substantial improvement to bodily injury insurance protection in Manitoba, with the greatest potential for significant savings.

The pure no-fault model, however, is only a model. It was designed only to test the viability of a pure no-fault plan in Manitoba. Imaginative insurance professionals may see a benefit in some redesign of the structure, within the no-fault concept, in order to improve upon it.

G. USE OF LEVEL RATING IN QUEBEC

In viewing the Quebec plan as it relates to bodily injuries, I do not endorse the Quebec regie's policy concerning premiums. The premiums in that province are the same for all drivers and for all private passenger vehicles regardless of accidents and driving records. This is not an issue in Manitoba. Nor, I assume, is it really an issue in Quebec, since drivers are probably rated on their accident records, by private sector insurers, who insure vehicles in Quebec.

H. EXCLUSION FROM INSURANCE COMPENSATION

While negligence in my opinion is not a reasonable ground on which to deny insurance coverage, criminal conduct in the operation of a motor vehicle is a ground for restriction of benefits. I believe that, in comparison with inadvertent negligence, criminal code driving convictions demonstrate a flagrant disregard for the lives and safety of other people. In my opinion, a person injured in the course of committing a criminal code offence should be barred from receiving disability benefits for one year from the date of an accident, and from entitlement to impairment benefits under a no-fault scheme. This bar should prevail unless, through application to the court, such person can establish that, notwithstanding the criminal conduct which led to the conviction, the accident occurred primarily as a result of the negligence or fault of another person, or from a cause unrelated to his or her criminal conduct.

I. RETENTION OF THE RIGHT OF SUBROGATION

Notwithstanding a no-fault plan, the corporation should retain the right to stand in the shoes of anyone who has been injured in a motor vehicle accident through the criminal conduct of its insured to sue and to recover from its insured any benefits paid to the injured party as a result of the accident. The corporation should be entitled to judgement upon proof that the accident was primarily the fault of the insured.

J. PROVIDING CLAIMANTS WITH RIGHT OF APPEAL

In a no-fault system, disputes will arise over issues relating to the payment of compensation, both in terms of entitlement and amount.

In New Zealand, the decisions of the accident compensation corporation may be challenged through two levels of informal appeal, the first being an administrative review by the corporation itself and the second being to an independent board. The third level of appeal is to the court. In Quebec, the decision of the Quebec regie concerning matters relating to compensation may be challenged, firstly, through an administrative review within the corporation, and secondly to an independent board. There is no provision in Quebec for a final appeal to the court.

In my view, administrative reviews within The Manitoba Public Insurance Corporation upon a decision concerning the entitlement to compensation or amount should be unnecessary. If a decision is challenged, it should automatically be reviewed by the superior of the official or officials who made the decision. No formal legislative procedure should be required to mandate it. A person with a grievance should have early recourse to an independent tribunal.

Upon consideration of the various options for challenging the decisions of the corporation concerning compensation under a pure no-fault plan, it is my opinion that government should establish an independent board through which challenges to the corporation's decisions concerning entitlement to compensation may be informally reviewed and either confirmed, varied or reversed.

A claimant who feels aggrieved by the decision of the board should have the right to appeal to the court on questions of law and fact. The corporation should also have that right. In the event of a corporation appeal, however, the corporation should be obliged to pay, on behalf of the claimant, such reasonable legal fees as he or she may incur, as respondent, in retaining counsel for an appeal to the court.

K. IN THE FINAL ANALYSIS

From the analysis of the corporation's opportunities to reduce costs examined here and in other position papers, it is my conclusion that administration expenses cannot reasonably be reduced. It appears to me, indeed, that the corporation should have made expenditures which it resisted. It pays its clerical workers more than persons with similar jobs in private industry. Even if the corporation could reduce those, however, the impact would be minimal.

Notwithstanding the costs to the corporation of bodily injuries sustained in accidents, two-thirds of the corporation's losses still arise out of the cost of vehicle repairs. I have failed to discover any method through which to reduce, significantly, those costs. There is no evidence of overpayment on labour rates or other costs relating to vehicle repairs. Despite difficulties in specific areas, it appears to me, based upon the information supplied after in-depth examination by consultants, that MPIC has been quite efficient in that regard.

Effective, pro-active safety programs and rehabilitation programs, will, I believe, reduce costs over time, and I encourage them, but those are long-term programs, and savings will be slow to be revealed.

The only realistic opportunity for good insurance protection at reduced cost lies in a pure no-fault automobile insurance plan.

VIII. SUMMARY OF MAIN CONCLUSIONS

The terms of reference under which I accepted the task of reviewing Autopac required me to consider "ways to reduce Autopac costs . . . while maintaining high quality automobile insurance to Manitoba drivers on a self-sustaining basis".

In approaching the task at the outset, I was aware that insurance companies had claimed that the sharp increases in the cost of automobile insurance were due to the escalating costs of bodily injury compensation.

Indeed, as I was to learn during the course of the review, Autopac's expenditures attributable to bodily injury compensation payments, annually, for the fiscal years 1984 to 1987 increased by 100 percent from approximately $40 million to $80 million. Vehicle repair costs for that period had also increased, but proportionately much less than the costs of bodily injury compensation. The cost of vehicle repairs rose from $110 million in 1984 to $160 million in 1987, an increase of 45 percent.

Through initial research, I became aware that the province of Quebec, several American states and New Zealand claimed to have discovered methods by which to provide good bodily injury insurance compensation coverage at a more reasonable cost than that available under other systems.

I saw my task, at the outset, as studying each of those other systems and comparing their characteristics respectively with those of Autopac to determine whether those systems or aspects of them might be usefully adapted to Manitoba.

To assist me in that study, I commissioned the preparation of a research project upon the characteristics of the no-fault bodily injury compensation insurance plans currently established in Quebec, in 15 American jurisdictions, and in New Zealand. The research project was undertaken by commission consultants Caroline B. Cramer, Q.C., and Hugh J. Armstrong, practicing lawyers. To work with them

a) for the purpose of testing whether through some modest measures to limit the extent of tort recovery, the no-fault benefits under the present plan could be increased to a more acceptable level, while still reducing the overall costs of Autopac, and

b) to test how these other insurance plans which I examined might be adapted to Manitoba with beneficial results,

I retained as a consultant to the commission the actuarial firm Tillinghast, a Towers Perrin Company. In the course of preparing this position paper, in the conclusions which I have drawn and in the recommendations which I have made, I have relied upon the information furnished to me through the research project and through the actuaries' calculations.

By comparing in some detail the characteristics of Autopac insurance with the other established insurance systems, by developing actuarial models to illustrate how those other systems would apply in Manitoba and by studying the literature relating to the tort system as a vehicle to provide bodily injury compensation, it became evident to me that as alternatives to the bodily injury compensation insurance under Autopac, those systems, and particularly that system established in Quebec, should be considered.

The commission concludes as follows:

- Voluntary mediation through a board established to attempt the resolution of disputes in automobile accident cases within the tort system might resolve disputes and reduce both costs and delay.

- Section 6(2) of the MPIC act inadequately recognizes the value of rehabilitation.

- The corporation's rehabilitation program provides useful assistance, but seems limited in scope and does not appear to be pro-active.

- The tort system has the capacity to be grievously inequitable and does operate to produce harsh inequities.

- The ability of the tort system to deter negligent driving is not supported by evidence, nor in light of public liability insurance is it supported by common sense.

- The mere hope that the tort system may deter negligent driving is not by itself sufficient justification for its perpetuation.

- Fault is unsatisfactory as a criterion upon which to base entitlement to adequate compensation for injuries resulting from motor vehicle accidents. It can fail to compensate the innocent, or can fail to compensate the innocent to an acceptable level, and it will fail to compensate normally careful drivers who make a mistake.

- The present add-on no-fault insurance provided by the corporation is inadequate.

- The costs of the present system cannot be reduced without significant impairment of benefits.

- Improving the benefits under the present no-fault plan, and reducing slightly the costs associated with tort recovery, would increase overall costs.

- A modified no-fault plan would reduce costs, but retain the inequities of the tort system.

- Under the pure no-fault plan envisaged by this position paper it is feasible to provide, among other benefits, income replacement to a maximum of $500.00 per week and impairment benefits to a limit of $200,000.00. These benefits, it is estimated, would have resulted in Autopac savings for 1987 of $39.8 million, or 17.5 percent of the total losses sustained by the corporation. It would have resulted in reducing the losses for bodily injury compensation by about 44 percent.

- The highest priority for an automobile insurance plan should be to provide a reasonable living standard for those who are rendered severely and permanently disabled as a result of injuries sustained in a motor vehicle accident.

- The maximum income replacement benefit in the adoption of a pure no-fault plan in Manitoba will not, in some cases, adequately protect certain income earners.

- Disputes concerning entitlement to benefits and the quantum of benefits payable under a no-fault plan will arise.

- Constitutional questions concerning the validity of a pure no-fault plan are open.

IX RECOMMENDATIONS

Recommendation 2:01: That the government of Manitoba, with the assistance of the Manitoba branch of the Canadian Bar Association, establish a voluntary mediation process through an appointed board, as a two year pilot project for the resolution of disputes in automobile accident cases. (Page 100)

Recommendation 2:02: That regulation 6(2) of the corporation's regulations be amended to enhance official recognition of the importance of rehabilitation, and that the corporation develop a policy toward rehabilitation which will enable it to conduct, coordinate, direct or participate in rehabilitation programs to assist the return to normal life of the temporarily and partially disabled, as well as the severely disabled as far and as quickly as it is possible. Such programs should be supportive, not threatening.

Recommendation 2:03: That the constitutional issues relating to restriction of court access presently before the Supreme Court of Canada be monitored. If the issue decided by the Supreme Court of Canada leaves doubt as to the constitutionality of a pure no-fault automobile insurance plan, that a reference be directed to the Manitoba Court of Appeal for its opinion concerning the introduction of a pure no-fault plan in Manitoba.

Recommendation 2.04: That if pure no-fault insurance is constitutional, a pure no-fault insurance plan be established in Manitoba, generally following the model of the pure no-fault automobile insurance plan outlined in model 3 of this position paper.

Recommendation 2.05: That under a pure no-fault plan there be a limitation of benefits for those insured whose injuries are caused by their own conduct for which they are convicted of a criminal offence -- by a denial of coverage for impairment benefits and by restricting disability benefits to a period commencing one year following the accident from which the injuries resulted -- except when, on application to the court by the insured, it is established that responsibility for the accident was not primarily that of the insured.

Recommendation 2.06: That under a pure no-fault plan where the corporation is bound to pay no-fault benefits to an injured party -- due to an accident caused by an insured driver who is convicted of a criminal offence arising from the accident -- the corporation be accorded the right to sue and recover from the insured the amount of any compensation paid to the injured party, if it is established that the accident was caused primarily by the insured.

Recommendation 2.07: That under a pure no-fault plan the government establish an independent arbitration board to entertain claimants' appeals of MPIC decisions relating to their entitlement to compensation within the structure of benefits allowed, and any other matter relating to the claimant's entitlement to benefits under the plan.

Recommendation 2.08: That under a pure no-fault plan when the claimant is aggrieved by the decision of the arbitration board, there should be a right to appeal the board's decision to the court.

Recommendation 2.09: That under a pure no-fault system the corporation be permitted to appeal the decision of the arbitration board to the court, but that it be obliged to pay the reasonable fees and disbursements of counsel retained by the complainant to represent him or her as respondent.

Recommendation 2.10: That under a pure no-fault system the corporation should explore with private sector insurers whether there is interest within the private sector to offer income replacement extension coverage beyond the basic limit. Should the response be positive, the corporation should not enter the field of extension insurance coverage for income replacement. If the response is negative, the corporation itself should offer extension coverage for income replacement above the basic limit at premiums that are actuarially based and calculated to earn a reasonable profit for application to the enhancement of safety programs.

Recommendation 2.11: That in the benefit structure of a pure no-fault plan, priority be given to adequate compensation for the severely and permanently disabled, at the expense, if necessary, of compensation for injuries which are minor.

AUTOPAC REVIEW COMMISSION

POSITION PAPER NO. 3

IMPROVING AUTOPAC RATEMAKING AND COVERAGE

Submitted to: Honourable Glen Cummings

Submitted by: Judge Robert Kopstein

AUTOPAC REVIEW COMMISSION

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I. INTRODUCTION

> "Insurance premiums should reflect the risk and costs involved; they should stand alone." -- Insurance Brokers of Manitoba Inc.

> "[Premiums] should be established on the basis of expected underwriting criteria." -- Risk and Insurance Management Society

A pivotal activity of any insurance company is arriving at premiums that reflect risk and are priced to achieve financial and other company objectives. In particular, MPIC must underwrite risk at a price, in premiums, which allows the company to break even on a long-term basis.

This report contains my findings respecting how MPIC assesses risk, makes rates and prices premiums. These findings are based on:

- Issues raised by individuals and organizations.

- Information prepared by consultants retained by the commission: The Coopers & Lybrand Consulting Group (who studied the central issues of ratemaking and premium pricing, and who are a firm with an international consulting practice in many aspects of business); Deloitte Haskins & Sells (who studied financial practices inside the corporation, and who are a firm with an international reputation in the area of accounting and management consulting); Woods Gordon (who studied the vehicle repair business in Manitoba and who are a firm with a distinguished record in Manitoba and elsewhere in Canada of understanding and analyzing automotive and other industries); the University of Manitoba Research Limited (who provided information on the economics of investment); David Roffey (who provided information on safety programs and other community relations issues, a field in which he has been an active professional for many years in Winnipeg); and Doug

Wiebe (who spoke with MPIC's agents, recording, in part, views on premiums, and who is knowledgeable of insurance agency). The findings in the consulting reports are not necessarily those of this commission. Where appropriate, I have incorporated their findings into this paper and adopt them as my own. This will be clearly indicated.

- Information gleaned from insurance literature in North America over the past five years.
- Information provided by the Insurance Bureau of Canada, the U.S. National Association of Insurance Commissioners and other trade associations.
- Interviews with MPIC officials, along with reviews of MPIC internal documents.
- Material generously provided by the Insurance Corporation of British Columbia, Saskatchewan Government Insurance, la Regie d'assurance automobile du Quebec and the Ontario government.

II. PUBLIC UNDERSTANDING OF AUTOPAC RATEMAKING

The 1987 average annual premiums for selected kinds of passenger cars, along with a sampling for other vehicles, are displayed in Figure 3.1. The 1988 premiums are about 20 percent higher. Evidently, most Manitobans can expect to spend $250 to $600 insuring a vehicle which amounts to a significant component of annual vehicle operating costs and which attracts scrutiny.

A. VIEWS OF MANITOBANS ABOUT AUTOPAC RATES

The following perceived failures of MPIC in rate setting were brought to my attention:

1. Arbitrary or Covert Cross-subsidies

It is believed that subsidies exist between various lines of MPIC's business. It was argued that commuters into Winnipeg, who pay lower rates by virtue of residing outside the city despite their exposure to the risks of city driving, are being subsidized unfairly by city dwellers. It was alleged that farm vehicles are subsidized by city residents. Finally, some Manitobans expressed the view that MPIC itself is subsidized by revenues from other agencies of government.

2. Political Intervention in Autopac Ratemaking

It was alleged that the overall level of premiums was manipulated to satisfy the political exigencies of the government of Manitoba. This was done supposedly by suppressing rate increases during the pre-election period in 1985 and 1986, thereby forcing a rate shock in 1988.

3. Unfairness in Rates

It was alleged that similar groups are treated unequally. A distinction in rating, between commercial trucks (which carry their own cargoes) and public service vehicles (which carry cargoes owned by others), was criticized. The belief was expressed that pupils who drive to school unfairly pay a lower premium than teachers. It was reported that a number of benefits available to cars are not extended to motorcycles. A record of good driving in another province was of no benefit in 1988, while poor driving elsewhere was penalized. It was alleged that older cars paid disproportionately high premiums when related to the cars' values.

4. Unresponsiveness to Consumer Concerns

It was alleged that the corporation has been indifferent in responding to complaints.

B. CONSULTATION WITH MANITOBANS

MPIC, as a publicly-owned monopoly, should conduct its ratemaking in a forthright and responsive fashion. Few of its policyholders (interprovincial truckers are the most important exception) are in any practical sense able to take their business elsewhere, even when the statute permits it for extension coverages. MPIC's occupation of the field of compulsory coverage ensures its domination of most extension business. For policyholders, it is simply more convenient to do business with the one insurer.

In my opinion, MPIC has a responsibility:

- To refrain from introducing unheralded, extreme rate changes for any coverage (as it did for motorhome maximum insured values and passenger car deductibles).
- To develop rates which are actuarially-sound and which can be explained to affected persons.
- To be responsive to complaints that the rating structures or the rates themselves are not sufficiently flexible, do not offer adequate/desired options, or are apparently inequitable.
- To ensure the rating system is not in a constant state of flux, i.e. that new classifications are not being added each year.

In order to ensure these responsibilities are properly carried out, MPIC should introduce a consultation process when significant changes in ratemaking are underway. This process should include steps such as:

- Identifying and approaching groups which may have an interest in the policy change.
- Developing options which address the issue. One or more of these options could reflect the ideas of interested groups.
- Publishing and/or selectively circulating a formal consultation paper describing the problem and the options.
- Publishing the corporation's decision.

A climate of honest dialogue and negotiation would be fostered by such an approach.

Recommendation No. 3.01: That MPIC develop a consultation routine by December 31, 1989 which provides policyholders with the orderly opportunity to comment on rating proposals which affect them, prior to the implementation of the proposals.

C. HOW AUTOPAC RATEMAKING AND RATES COMPARE

While it is commonplace for policyholders, as well as the media and the corporation, to compare MPIC premiums to those elsewhere, there are grounds to temper these comparisons:

1. Risk Selection

MPIC is legally obliged to provide insurance coverage for virtually every motor vehicle eligible for registration in Manitoba. Most private insurers can refuse to accept risks which they deem to be unacceptably high.

2. Cover Restrictions

In Manitoba, most private passenger cars are insured in one of two use codes (preferred or all purpose), which place relatively few restrictions on operations. Private automobile policies typically include stipulations on the number of miles driven to and from work, the number of drivers living in the same household, under-aged drivers and other factors.

3. Differences in Rating Systems

The commission has identified six main differences in the approach to rating systems adopted by the insurance industry and by MPIC.

Firstly, the specific criteria used by Autopac for vehicle classification are:

- The territory in which the insured resides.
- The vehicle use for insurance purposes.
- The rating group (which takes into account the factory price for the vehicle, as well as model, year and age).

These criteria are more straightforward than those commonly used within the motor vehicle insurance industry.

Secondly, MPIC uses the manufacturer's base factory price (with all options excluded) to assign a passenger car to a rating group from 5 to 9 or A,B,C,D. A different model of the same make may be assigned a different rating group, according to its base price.

The insurance industry, in contrast, uses, among other data, highway loss data institute (HLDI) reports which catalogue the history of repair costs, the incidence and severity of accidents, and the original price of the vehicle.

Thirdly, in 1986, Autopac eliminated driver age, gender and marital status as criteria in rate making because they were discriminatory.

North American statistical data substantiate that drivers under 25 have a higher incidence of accidents than those over 25. Unfortunately there are limitations to the Manitoba data on this issue, but there is no reason to doubt that the continent-wide pattern would be repeated here.[1]

Information from many jurisdictions in North America also demonstrates conclusively that females have fewer accidents than males and that married persons, especially younger drivers, experience fewer claims than their unmarried counterparts. These data can not be assembled for Manitoba but similar conclusions would undoubtedly emerge.

[1] Because MPIC is insuring vehicles rather than drivers, it does not record driver age. Because the computer systems used by DDVL, which do keep track of age, are not linked automatically to MPIC's computer systems, it is not possible for MPIC to learn the age of insureds from DDVL. In sum, it is not possible for MPIC to assemble statistics on the incidence of accidents by age groups.

For such reasons, many North American insurers continue to use driver age, gender and marital status as rating factors, although obviously a person's age and gender are entirely uncontrollable by the driver and marital status is only scarcely less so. Such uncontrollable factors, in my opinion, are not proper grounds for setting premiums. It is clearly fairer to continue MPIC's present practice: impose a surcharge only where a conviction or a demerit record warrants it. MPIC's approach is likely to be gradually adopted elsewhere in Canada; for example, Ontario, by law, has just required these criteria to be eliminated.

Fourthly, regarding discounting practices, Coopers & Lybrand found that:

> "Most insurers give drivers discounts of up to 40% off the basic premium if they have had ten years of accident-free driving. Accident-free driving means having no accidents classified as the driver's fault."

Until the 1988 validation year, MPIC differed from industry practices by offering no discounts to accident-free drivers. MPIC's philosophy was to offer every driver the lowest possible premium, on the assumption all drivers are good drivers, unless proven otherwise. MPIC penalized poor drivers. MPIC practices resulted in a more level rating system than elsewhere -- lower discounts for better drivers, lesser penalties for poorer drivers.

In 1988, MPIC altered this practice somewhat so that drivers with merits became eligible for reductions of about five percent in basic vehicle premiums as well as discounts in drivers' licence fees. Reductions for extension coverages were also allowed but were more generous, in some cases as high as 30 percent.

Fifthly, with respect to merit points, I accept Coopers & Lybrand's commentary that:

> "The system of using merit points as a basis for giving drivers discounts on their vehicle insurance is not used by other insurers . . . . The major effect of the use of the merit rating system is that if a Manitoba driver were to have a number of speeding tickets which created demerit points on the driver's licence, that driver would not now qualify for the discount on vehicle insurance even if the driver had no accidents."

Again MPIC's approach is at variance with the insurance industry.

The final difference from the insurance industry is apparent in Coopers & Lybrand's finding that:

> "MPIC includes all perils coverage of the vehicle as part of basic Autopac, whereas other insurers offer collision coverage on an owner's vehicle as an option."

4. Varying Insurance Benefit Levels

Basic Autopac includes no-fault accident benefits, superior in many cases to those offered by private insurers.

5. Administrative Expenses

Unlike private insurance companies, MPIC as a Crown corporation is exempt from paying federal and provincial income taxes. On the other hand, the corporation must provide service everywhere in Manitoba and not just to more "accessible" areas. This necessitates MPIC maintaining a more dispersed network of offices than required of private insurers.

As an agency of the Crown, the corporation has also been called upon to finance and administer government-initiated programs, such as vehicle inspection and other safety programs.

6. Variations in Driving Patterns, Geography, Weather

Ideally, comparisons should reflect variations in driving patterns (e.g. traffic density), geography, (e.g. number/size of cities) and weather (e.g. frequency of storms). However this ideal is essentially impossible to attain.

With these qualifications in mind, I would like to make a few general observations based upon Table 3.1, provided by MPIC:

- For the cars identified on this table, Autopac rates appear to be among the lowest in Canada. However, due to generous good driver discounts often offered to more experienced drivers in other jurisdictions, the rates for those drivers may be better than Manitoba rates.

- For 18 year old or younger males, rates in Manitoba appear significantly lower than rates elsewhere.

- A greater variety of rates is offered in other jurisdictions. As Coopers & Lybrand advised the commission, there are constant pressures on private insurers to identify and exploit various market niches. This segmenting has the beneficial effect of customizing policies for individual groups of owners. It also has the drawback of leading to a gradual

> proliferation of policies, making it difficult for people to shop around in an informed fashion.

The commission received evidence of mounting problems with passenger car insurance rates and coverages in other jurisdictions. For instance, The Financial Post of April 11, 1988 reported:

> "Insurance Industry executives in Ontario have said they want increases of 30% or more.
>
> "In other provinces where private auto insurance exists, such as Alberta and the Atlantic provinces, industry spokesmen say rate increases this year should be 'moderate' -- which, to them, means 10% to 12% . . . . British Columbia has increased rates 22% this year, after a 4.5% hike in 1987 and a reduction the year before . . . . Manitoba's facing a provincial election in large part because the governing New Democrats approved hikes of 25% [This is wrong: the actual hike was 18%.] after 2 years of minimal increases.
>
> " 'The auto insurance business is too fragmented,' says Tom Delaney, spokesman for the Consumers Association of Canada, pointing to the 172 companies in the business. 'The basic principle of insurance -- pooling risks -- is impossible with so many companies, each with such a tiny part of the business'. . . . For instance, Co-operators General has auto premium income of $277 million making it the largest [private] Canadian car insurer, but that is only about 11 to 12 percent of the market . . . .
>
> "According to Statistics Canada, the average cost of insuring a car -- private and public insurance combined -- has increased 112% in the ten years ended in 1987. But Stats Canada says premiums in the private sector alone have increased 163 percent."

Vocal discontent with the escalation of premium rates has come to the surface in the United States. For instance, in the British news-magazine The Economist, it was reported on April 23, 1988 that:

> "Many of California's 13.1 million car owners pay more each year for car insurance than they do for [gas] . . . . On average, car owners in Los Angeles pay $2600 a year for insurance, compared with $1696 in Miami and $1768 in New York . . . . [As a consequence] it is estimated that in some parts of Los Angeles 86% of drivers have no insurance . . . . On March 22nd the Attorneys General of seven states, including California, filed suit against major American and British Insurance companies. The suit accuses Lloyds of London and Allstate, among others, of conspiring to restrict liability insurance for companies and to eliminate coverage for damage from pollution."

Based upon this and other evidence, I am of the opinion that automobile insurance in Canada and elsewhere in North America is in a state of flux and has witnessed, recently, rapid increases in premiums. Manitoba is not, therefore, unique with regard to heightened public concern over insurance rates. Nonetheless, MPIC, as a publicly-owned monopoly, has a greater obligation than private insurers to justify rate changes in an entirely open fashion. Openness, rather than the level of premium escalation, is really the fundamental issue.

III. OVERALL FINANCING OF VEHICLE INSURANCE

In this chapter, I consider and analyze the merits, drawbacks and revenue-rasing possibilities of some of the broad alternatives used or available in Manitoba to finance compulsory vehicle insurance, namely imposing premiums on vehicles, imposing premiums on drivers, imposing surcharges on poor drivers, imposing premiums on gasoline and subsidizing the company through the Manitoba government.

A. VEHICLE PREMIUMS

Autopac collects about 92 percent of non-investment income from vehicle premiums. The concepts underlying vehicle premiums have been described elsewhere in this and other position papers. To recapitulate, the basic advantages to vehicle premiums are:

- Public acceptance (imposing premiums on vehicles was not raised as an issue to this commission).
- Convention and tradition (which has lead to a high level of sophistication in vehicle premium setting).
- A simple correspondence with costs -- it is, after all vehicles that are repaired. In fact, MPIC reports that vehicle damage constitutes about 60 percent of all claims incurred. It is accordingly reasonable for much of the premium burden to reflect vehicle value.

A great deal of relevant experience has been accumulated in setting vehicle premiums throughout North America. This experience has been recorded in many publications and analyses, such as those of the U.S. highway loss data institute. This experience, through the application of actuarial techniques, has allowed vehicle insurers to construct complex statistical plans relating premiums to vehicle types, uses and the like.

For these reasons, it is appropriate that premiums be determined largely on the basis of the value of, and risks associated with, the specific vehicle.

B. BASIC DRIVER PREMIUMS

When Manitoba motorists apply for a drivers licence, they remit a licence registration fee (now $9 annually) and an amount described as representing a "basic insurance charge". In regulation 31(2) made under The MPIC Act, the purpose of the basic insurance charge is portrayed as being the financing of coverage of drivers who unknowingly drive an uninsured vehicle, although the actual charge is not calculated accordingly. I was told, upon inquiry to MPIC, that this charge is intended generally to fund accident benefits. In 1987, it was $15.

In 1973, driver premiums generated about 10 percent of MPIC revenue. By 1987, the corporation collected $14 million or five percent of its revenue from drivers; the amount collected as a basic charge, exclusive of driver surcharges, was $9 million.

In 1988, MPIC increased the basic charge from $15 to $35, thereby increasing potential revenue by about $13 million. Simultaneously, this revenue was partly offset by MPIC's offer to reduce the $35 premium by $5 per driver's merit point up to a maximum of five merits; this is equivalent to a maximum $25 rebate. The overall effect of this reduction was to lower possible revenue by about $7 million: so in net terms MPIC's revenue is expected to rise by about $5 million in 1988. These actions return the revenue from drivers, as a proportion of total revenue, to the 1973 levels.

Drivers' basic premiums have several advantages, as noted by Coopers & Lybrand:

> "o [It] is a simple method to raise funds. There are approximately 630,000 drivers in the Province of Manitoba. Every $5 increase in drivers' premiums contributes approximately $3.2 million in revenues, or approximately 1.3 percent of the total Autopac revenue in 1987.
>
> o Because the current drivers' premiums are [apparently] not considered by the public to be [too] high, potential increases are more likely to be acceptable than increases in motor vehicle premiums."

To which I would add:

- For each policyholder, the driver charge is paid generally at a different month than the vehicle premium, thus spreading out the financial burden on the insured.

- Driver premiums compensate MPIC for increased risks where one vehicle is regularly used by several drivers, such as members of a family. The assumption is that, with several drivers rather than one, a vehicle is driven more frequently and, so, its exposure to risk is higher. This is not going to be true always, but the assumption has validity.

There is a drawback, however, as Coopers & Lybrand remarked:

> ". . . [I]t is difficult to apportion risk between drivers and vehicles. Thus, it may be hard to justify a particular level of driver premium."

In order to provide justification for drivers' charges I note that everyone injured in a motor vehicle accident in Manitoba -- whether as driver, passenger or pedestrian -- receives no-fault accident benefits. Thus, it could be argued, as MPIC appears to do informally, that premiums to support accident benefits should be imposed not on vehicles but on people, and one practical way to do so is to impose these premiums on drivers. This reckoning requires that drivers premiums be earmarked and calculated to pay accident benefits. By earmarking the basic charge to cover accident benefits, future increases to the driver charge would be generated automatically in a justifiable fashion.

Recommendation No. 3.02: That MPIC, under its current rating system, link the level of the basic driver charge to one or more specific bodily injury benefits, effective insurance year 1989 and remaining in effect until a pure no-fault benefit program or a new method of driver rating is introduced.

C. SURCHARGES ON DRIVERS

The two surcharges, which may be imposed on a driver, are, in effect, a means of holding a driver accountable for his or her accident or conviction record. Charge I relates to demerit points accumulated for violations of The Highway Traffic Act, according to a point system embedded in that act, or of the Criminal Code of Canada.

Charge II relates to the number of at-fault accidents (that is, 50 percent responsibility or more) experienced by a driver, within the previous year.[2] MPIC has announced its intention to count the previous three years' accident record, with that record commencing January, 1 1988.

The two surcharges generate only about $5 million, 1.5 percent of all premiums. It can be seen from Figure 3.2 that, even of the amount collected from drivers, the percent attributable to both surcharges is only about 40 percent.

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[2] It has been alleged to the commission that the corporation will tend to assign responsibilities for fault in accidents on a 50-50 basis. To do so leaves both those involved in an accident in a position of having to face potential surcharges. In fact, material provided by the corporation to the commission shows that only a very small percent -- roughly 1½ percent -- of claims are settled on a 50-50 basis.

1. Surcharges for Accident Convictions

How Surcharging Works

In 1987, the accident surcharge produced $3.5 million in Autopac revenues. In 1988, the accident surcharge system was modified by increasing the one-year charge for the second accident from $150 to $250, for the third accident from $250 to $500, and so on. Simply put, the system now operates generally as follows:

- The second at-fault (i.e. 50 percent or more) accident within 12 months of the first accident results in a surcharge of $250 for one year,
- The third at-fault accident within 12 months of the first accident results in an additional surcharge of $500 for one year,
- Each additional accident after three accidents results in an additional surcharge of $750 per accident for one year.

These modifications are expected to raise an extra $0.5 million in revenue in 1988, bringing the total for accident surcharges to $4.1 million. There is no maximum for a driver but the highest surcharge reported in 1988 is $1,500.

Strengths and Weaknesses

MPIC's approach to accident surcharging has merit, in that an accident-prone driver, especially one with several accidents in one year, does face a heavy surcharge.

Its main drawbacks are:

- It cannot capture an accident pattern over several years (i.e. outside the 12 month window now used).
- There are no discounts for drivers who have been accident-free for many years. This relatively "level" system between better and poorer drivers was considered to be a benefit at Autopac's inception.
- The first at-fault accident does not trigger a surcharge. What this means is that few surcharges are ever imposed, for as Figure 3.3 shows, the overwhelming number of Manitobans have no accidents. Of those that do, most are likely to have had only a single accident in any three year period. Thus, the number of individuals who must pay an accident surcharge under the current allowance of a "free" first accident, i.e. those with two or more accidents, is bound to be relatively small. Figure 3.3 reveals just how small -- of about 600,000 drivers, only 40,000 or 6.5 percent pay a surcharge and most of these are paying for just the second accident, i.e. an extra $250 annually.
- The penalties are unrelated to actuarial or statistical considerations and are insensitive to MPIC's costs of accidents.
- It is complex, when multiple accidents occur over periods where a driver is not driving and has allowed his driver's licence to lapse.

Because the accident surcharge system is the sole means of penalizing drivers with poor accident records, I cannot recommend it be abandoned. It must, instead, be redesigned.

Redesign of Accident Surcharges/Discounts

Many of the people who made presentations to the commission proposed that MPIC should offer discounts to better drivers as well as surcharging poorer drivers. Traditionally, MPIC has operated on a somewhat different basis, namely that all drivers should be treated as good drivers and offered the lowest possible rates unless, by their behaviour, they demonstrate that they do not deserve this preferential treatment. There are important perceptual differences between offering a standard nominal rate and surcharging poorer drivers, on the one hand, and, on the other, offering a standard rate, based on real anticipated losses, and discounting better drivers while surcharging poorer drivers. Under this latter approach, surcharges become a source of funds to finance discounts. Also, MPIC can be viewed by policyholders as extending a valuable, earned credit to better drivers; this will improve MPIC's credibility.

Under the present system a person can be at fault in an accident twice in every 366 days (367 in a leap year) without ever being required to pay a surcharge, as the accidents are not within one year of one another. A person who has multiple accidents contributes heavily to insurance costs, but may escape surcharges. In my opinion, while accidents will happen, one need seldom have accidents if proper care is exercised. Considering the justifiable demands of those who have driven accident-free for many years and, as well, the corporation's need to finance the rewards of those drivers from some source, I think that the surcharge trigger period should be expanded to five years. Some estimates prepared by MPIC imply this would raise revenues by over $20 million.

To a five year surcharge period, however, I would make an exception as it applies to those who are taxi drivers, livery drivers and others whose daily occupations are the carriage of passengers or goods. For that group, it is my opinion that a surcharge period of thirty months would be fairer to them and would recognize their greater exposure to the hazards of traffic, without discounting their responsibility for at-fault accidents.

Justice argues that a first accident be surcharge free. In many cases, the driver will have paid a penalty through the deductible on his vehicle repair. It has been pointed out to me, however, that if a surcharge were imposed on first accidents, the fund would be enhanced from which to provide substantial discounts to the long-standing accident-free drivers. Hence I accept the necessity of a surcharge for one accident.

A motorist's substantial discount for years of accident-free driving should be reduced after an accident or accidents. For a first accident, he or she might lose all or part of his or her discount. In my opinion, the discount for a motorist with one accident, but otherwise an accident-free record for five years, should be reduced by 50 percent. For those in the business of transporting persons or goods, the time period would be reduced to 30 months.

I note that Saskatchewan Government Insurance imposes a $100 surcharge for a first accident (over $205 in value), because the company has determined that a driver with just one accident in a three year period is about twice as likely to have a subsequent accident in the next year as a driver with no accidents in the previous three years. ICBC, in effect, imposes additional premiums for three years on first-accident drivers. The excess premium paid over those three years could amount to $600.

The term of paying any surcharge could also be lengthened from one year to two or three years. This would raise revenue of between $7 million and $10 million. However, I do not believe that drivers ought to be penalized more than once for each accident. Multi-year backward-looking and forward-impacting systems are also difficult to administer and very complex to explain to enquiring or protesting drivers. Such complexity was one of the things that the introduction of Autopac was intended to avoid.

Whatever the precise surcharging approach, some care must be exercised so that the burden on surcharged drivers does not become punitive. The registrar of motor vehicles expressed concern to the commission that existing high levels of fines and surcharges may already be contributing to increased driving without insurance. Also a major weakness of high surcharges is that the surcharges may exceed by many times the actual vehicle repair or other costs associated with a driver's actual accidents.

Because significant discounts might range as high as 25 to 40 percent of standard rates for a vehicle, they could not be applied simply against the basic driver charge of $35; the discounts must be applied against vehicle premiums. To offer sufficient scope for discounts, a review will be required of the allocation of the premiums/penalties/discounts between drivers, per se, and drivers as owners of vehicles.

A system such as that used by the Insurance Corporation of British Columbia should be reviewed for its applicability here. Basically B.C. drivers:

- Earn a 10 percent premium reduction for every accident-free year up to a 40 percent reduction;

- Pay 30 percent excess premium for each at-fault accident. In my opinion, the treatment of a first accident, under this ICBC approach, is too punitive.

The B.C. system was designed initially to relate to actuarial considerations but also to be simple and stable.

Recommendation No. 3.03: That, effective not later than insurance year 1992, MPIC replace its accident-surcharge system with a system of discounts and surcharges for drivers. In particular, that MPIC offer maximum discounts to drivers without any at-fault accidents over five consecutive years. The penalty for a single accident should be such as to reduce the discount by half, in the event of the first accident in such a period.

Immediate Steps to Improve Accident Surcharge System

Pending fundamental reconsideration of the surcharge system, which might require some years before implementation, MPIC should immediately begin surcharging drivers who have had only one accident in the surcharge assessment period. These one-time surcharges should be fixed at $50. In this way, drivers who have been charged with one at-fault accident would contribute an additional $2 million to $3 million to automobile premiums in Manitoba. Other charges, for further accidents, should be accordingly raised by $50; for example, the second accident penalty should rise from $250 to $300.

Recommendation No. 3.04: That, as an interim measure beginning with insurance year 1989, MPIC impose a $50 charge for a first accident, and, furthermore, increase the charges for multiple accidents by $50.

2. Demerit Surcharges and Merit Benefits

How the Demerit/Merit System Operates

Drivers with demerit points paid an additional $1.46 million in 1987. In 1988, because of about a nine percent increase in demerit penalties, the revenues to MPIC are expected to be $1.6 million. The highest surcharge for a driver in 1988 was fixed at $999.

The demerit system is a complex one; simply put, it operates as follows. The number of demerit points, for various offences, is listed in The MPIC Act by corresponding reference to The Highway Traffic Act or The Criminal Code; the actual assignment of points for selected violations is suggested in Table 3.2. Examples of the amount of additional premium, according to the number of demerit points, appears in Table 3.3; no surcharge applies for five or fewer demerits.

Each year demerit points are automatically reduced. For instance:

- One, two or three demerit points are reduced to zero demerit points.
- Four demerit points are reduced to one demerit point.
- Five demerit points are reduced to two demerit points.
- 11 or 12 demerit points are reduced to seven demerit points.
- 18 or 19 demerit points are reduced to 12 demerit points.
- 28, 29 or 30 demerit points are reduced to 18 demerit points.
- 31 or more demerit points are reduced by 13 demerit points.

The merit point system is also complex: merit points are awarded at the rate of one for each two year period during which a driver:

- Held a valid Manitoba Driver's licence.
- Has not been assessed any demerit points in respect to accidents or driving convictions.

- Has not been assessed an additional insurance premium as a result of two or more accidents.

A maximum of five merit points can be accumulated. Each merit point removes two demerit points. Starting in 1988, drivers with merit points qualify for a discount on both the vehicle insurance premiums and driver's licence fees.

Effective the 1988/89 insurance year, most vehicle owners (though not all) enjoy about a five percent vehicle premium reduction if they had at least one merit point on their drivers' licences. For an owner to qualify, his or her vehicle(s) must have been registered (and not just owned) for at least eight months in 1987, a stipulation designed to prevent swapping ownership between spouses.

Effective January 1, 1988, drivers may receive a discount of $5 on their driver's licence fee for each merit point they have earned. To qualify, motorists must be free of "major" traffic convictions during the 24 months preceding the effective date of the licence. In addition, they must be free of accidents for which they were found responsible during the 12 months preceding the effective date of the licence.

Strengths and Weaknesses

The merit-based vehicle premium reduction is the first incentive the corporation has offered for good driving. Through its application, I believe the premium burden has been distributed somewhat more fairly. It was also stated by MPIC to the commission that, because accidents may trigger a reduction in merit points, some accidents are not being reported, holding down claims and claims costs to MPIC.

As a general principle, a demerit/merit system is beneficial. Driving habits, which lead to convictions, tend to magnify accident risks. This may not be so in every case or in every circumstance. From available evidence, however, it appears to be generally so. Saskatchewan Government Insurance data suggested a significant relationship between convictions and responsibility for accidents. Indeed, being able to link the records of driving convictions to insurance premiums, a practice that is partly a consequence of MPIC being a Crown agency, is an advantage of public ownership. In my opinion, a system which uses merits and demerits for rewards and penalties is justified.

There are, however, a number of problems with the demerit/merit system. Coopers & Lybrand advised me that:

> "The current [merit rebate system of $5/point] offers little benefit to the good driver and is also flawed in other important aspects:
>
> o Although nearly 70 percent of all drivers earn merit premium reductions, the incentive is probably too small to have any meaningful impact on driving habits and, consequently, claims costs.
>
> o The corporation gave up approximately $7 million in potential [drivers licence fees] by offering merit . . . reductions. Since the consumer benefit was small and, thus, the economic incentive for motorists to drive carefully, it is unlikely that the corporation will derive any compensating benefit in the form of reduced claims costs. The driver's premium of $35 could have probably been charged to all drivers without too much public resentment. Drivers who currently have four and five merits will pay $1.8 million less in 1988 than in 1987 when the driver's premium was $15."

While I do not believe that the consultant is correct in the first point, he is probably correct in the second.

The demerit/merit system suffers from other significant weaknesses, partly because it was developed by the Manitoba department of highways to assist in identifying drivers who might need retesting or retraining:

i) Drivers with one to five demerits pay no surcharges.

ii) As Figure 3.4 reveals, a minority of drivers have any demerit points: nearly 150,000 drivers enjoy the maximum of five merits, while only about 15,000 drivers have five to 21 demerit points. The demerit/merit system is very top-heavy and penalizes few drivers.

iii) The form of the regulations under The Manitoba Public Insurance Corporation Act makes the identification of many offenses for which demerit points may be assessed virtually impossible without painstaking research.

In my opinion, regulations under The MPIC Act should be required to list specifically, rather than generally, all The Highway Traffic Act and Criminal Code sections, for which points are assessed.

iv) There are unanswered questions about whether and how a past conviction is related to future insurance risk. Little evidence exists in

Manitoba on this point. Available evidence of a relationship between convictions and accidents comes, as I have remarked, from Saskatchewan Government Insurance which did a survey of driving records. The following are the main conclusions:

- Of drivers who have no convictions or accidents for three years, 3.7 percent will have an accident in the following year.
- Of drivers who have one conviction in the last three years, 7.2 percent will be involved in an accident in the following year.
- Of drivers who have two convictions in the last three years, 10.1 percent will be involved in an accident in the following year.
- Of drivers who have more than two convictions in the last three years, 15.2 percent will be involved in an accident in the following year.

MPIC has begun to accumulate its own evidence from the current validation year, beginning March 1, 1988, respecting the loss ratios for those who received merits on their 1988 premiums as opposed to those who did not. This evidence is very preliminary; it does show that loss ratios for owners without merits are two to four times those of drivers with merits.

v) Drivers can experience a triple penalty for a conviction on which demerit points are assessed. When the driver is assessed demerits, one merit is deducted automatically for each two demerits assessed. The driver also loses eligibility for earning a new merit for the current year. Further, the driver does not become eligible to earn a new merit for a two year period following the conviction.

vi) Merit points are not obtainable in Manitoba by motorists with periods of accident-free or conviction-free driving recorded in other jurisdictions, although certain convictions elsewhere are counted and lead to demerit points being assigned. Moreover, unlike private insurers, MPIC does not take into account the recent claims record of a motorist from another jurisdiction. It is inequitable that the merit point system does not take a good driving record elsewhere into account. In order to do so, MPIC could require a driver, who seeks recognition of merits for conviction-free driving elsewhere, to provide written proof of that record, possibly from the driver's previous vehicle insurer or the registrar of motor vehicles in the other jurisdiction. A new resident in Manitoba should be afforded that opportunity. Since the merit/demerit system is largely administered by DDVL not MPIC, this improvement will require joint action.

vii) Problems arising from the rule restricting merit reductions on the vehicle insurance premium to persons whose vehicles were registered for eight or more months in 1987 came to my attention at the last moment.

In the absence of time and not necessarily in possession of all the facts, I do not wish to make a specific recommendation, except to propose that MPIC develop fairer qualifying policies.

It should be recognized that the right to drive, and the suspension of that right, are not issues within the jurisdiction of MPIC. They are issues for the registrar of motor vehicles and, sometimes, the courts. If a person's record has not resulted in a suspension by the registrar or by the court of his or her driving privileges, the imposition of prohibitive surcharges by MPIC might improperly accomplish a de-facto suspension. The point I wish to make is that if a person is entitled to drive, the corporation has an obligation not to fix surcharges that are so onerous as to put the premium out of reach.

Improvements to the Demerit/Merit System

In light of the weaknesses and inequities in the merit/demerit system, I believe it must be carefully reviewed and restructured. This restructuring should result in a system which:

- Is administratively simple to operate and explain.
- Is harmonized with the discount/surcharge program related to accidents, so that the two surcharges are relatively simple to explain and don't interact to create hidden double and triple penalties.
- Takes into account the differing needs of DDVL and MPIC. It may well be, although at this stage I cannot be sure, that MPIC may need to develop its own system of demerits and merits.

As an immediate step, MPIC should tighten up the system by imposing a graduated surcharge when a driver has one to five demerits, and not merely six or more as is done today. Also out-of-province merits should be taken into account, and the eight-month rule modified.

Recommendation No. 3.05: That the merit/demerit point system be restructured thoroughly or replaced by a superior driver rating method, effective not later than insurance year 1990, in order to introduce more equity and simplicity.

Recommendation No. 3.06: That, effective insurance year 1989, MPIC charge a graduated penalty to drivers with one to five demerit points, allow out-of-province merit points to be taken into account, and, for merit points affecting vehicle premiums, establish a fairer qualifying policy.

D. GAS PREMIUMS AND HIGHWAY TOLLS

1. Gas Premiums

Gas premiums, popularly known as 'a gas tax', were used in the mid-1970s to provide revenue to the corporation. This was seen in some quarters as a subsidy from government.

There are a number of advantages to a gas premium:

- It spreads the "premium" payments throughout the course of the year even more effectively than cyclical renewals.
- It has the effect of levying a payment on non-Manitoba motorists, including truckers, who travel through Manitoba. DDVL estimates that 12

more fatalities occurred on Manitoba highways in 1986 due to transit traffic to and from Expo 86. These motorists are entitled to no-fault accident benefits but pay no premium.

- Its administration would be relatively easy as gasoline/diesel taxes are already levied in Manitoba at a rate of 8¢/litre (leaded fuel is 0.9¢ greater) and raise about $160 million.

- Coopers & Lybrand noted:

> "Since the price of gasoline in Manitoba is among the lowest in Canada, a new fuel tax would place Manitobans at no greater disadvantage when compared to motorists in most other provinces."

If it were decided to proceed with a gasoline premium, there are a number of options that might be considered. Each of these is predicated on the fact that Manitobans use about 1.8 billion litres, or about 400 million gallons of gasoline annually: that is to say, a one-cent-a-litre premium would raise $18 million.

Option One: The gas tax could be set at a low level and, perhaps, tied conceptually to offsetting total accident benefits paid by the corporation, now running at around $15 million. It would amount to about one cent a litre. The average Manitoban would pay roughly about $25 per year, but would be relieved of paying $25 in vehicle premiums.

Option Two: The gas tax would be set at a significant level, such as five cents a litre, thereby raising $90 million. This would pay for the total of accident benefits and bodily injury components of public liability. Indeed, it could be earmarked explicitly to pay for these coverages. The average Manitoban would pay roughly $120 in extra gas tax per year; however, average vehicle premiums would fall by $140. The difference would be obtained from my best estimate of the contribution from non-residents, i.e. truckers and tourists.[3]

Certain kinds of use, such as airline fuel, could be exempted.

Option Three: The gas tax could be set at a high level such as five cents a litre. It could then be rebated to Manitobans[4] according to average use per year, which is about 12,000 miles of driving or about 600 gallons. The rebate on 600 gallons would be worth approximately $120. This amount could be rebated through the income tax system; it would leave individuals who traversed Manitoba from other provinces with having contributed about $12 million to Manitoba's public insurance operation.

It should be noted that the use of a gas tax for this purpose, while having a number of benefits, also could lessen the public acceptability of the province raising the current eight cents a litre gas tax for general revenue purposes.

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[3] The proportion of the current gas tax paid by non-residents is unknown in Manitoba. In Saskatchewan, gas taxes are rebated to residents so an estimate is available from there. Those Saskatchewan estimates are that about 15 percent of its gas tax is raised from non-residents.

[4] As is done in Saskatchewan, although actual gas receipts must be submitted at year-end in Saskatchewan.

Contrary to those arguments:

- Older, typically larger less fuel-efficient cars, often owned by persons with low or modest incomes, use more gas and would pay more tax.
- Rural vehicles tend to be driven farther and so would tend to pay more.
- Truckers might take evasive action to avoid the tax by not buying gas, or by not even stopping, in Manitoba.
- Commercial vehicle owners within Manitoba would pay disproportionately to other residents, unless rebates were instituted.
- Revenue from a gas tax tends to obscure accountability.
- To charge out-of-province motorists with insurance not requested and, perhaps, not needed because of other insurance which might deduct MPIC benefits, is questionable.
- There would be cost attached to a rebate program for Manitoba drivers or commercial drivers.
- People consider that the daily or weekly dole at the gas pump is burdensome enough already. If I am wrong in this appraisal of the public sentiment, I assume the public will make its views known.

With respect to both the gas tax and the government contribution to MPIC (see below), it may be argued that providing these funds to MPIC discriminates against private insurance companies active now or in the future in Manitoba. In order to remedy this problem, these taxes or grants could be transferred by government to the superintendent of insurance who would be required by statute to distribute the amounts to any insurance companies providing automobile insurance of any kind in Manitoba, according the proportion of total automobile insurance written by that company. Thus, there would be no subsidy to MPIC alone.

To recapitulate, a gas tax has advantages and drawbacks. In my opinion, the arguments against the implementation of a gas tax are more persuasive than the arguments for its implementation. Autopac would not be self-sustaining and accountability for its financial management would be blurred.

Recommendation No. 3.07: That no gas tax be imposed for the purpose of subsidizing vehicle insurance plans.

2. Highway Tolls

One of the commission's consultants referred to highway tolls as a means to raise revenue. In my opinion highway tolls should not be imposed because they would unfairly penalize rural persons for whom highways are often their streets, and commercial vehicles whose rates already take usage (e.g. mileage) into account; the introduction of tolls would lead to massive, costly investment in toll booths and the like. I do not recommend highway tolls.

E. GOVERNMENT SUBSIDIES

> "The politicians have used the reserves of MPIC to supplement the health and education programs by insuring municipal bonds." -- Don Sobering.

> "The rates were not as low as they should have been because the government insisted on using automobile premiums for other good works. The amount of money siphoned off should be addressed in the report expected from Judge Robert Kopstein. . ." -- Winnipeg Free Press editorial, June 20, 1988.

> "CAC submits that the only method of insuring that there is no cross subsidization is to have an independent review on a regular basis." -- Consumer Association of Canada (Manitoba).

> "Non-premium subsidies have been received by the corporation through gasoline taxes, the Motor Vehicle Branch [now DDVL] Agreement, financial guarantees, money management services, and driver license and surcharge fees which value in the range of $91 million [i.e. over 8 years]. Non-quantifiable subsidies have been received through freedom from income taxation and direction of government general insurance business to the corporation at uncontested rates." -- Report of the Ministerial Committee on Insurance Review ("Burns" Committee), page 7.

1. Manitoba Health Services Commission

MHSC and MPIC have instituted a formal agreement governing payments from MPIC. I have determined from MPIC and MHSC that the chargeback mechanism now in place is as follows: in general, MHSC recovers from any liable first party the cost of treating an innocent party injured in a vehicle accident; when MPIC is the insurer for the liable first party, MPIC accordingly will make a payment to MHSC to cover medical services for the injured innocent party.[5]

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[5] It may be worth noting that the first (or liable) party's medical expenses are paid for by MHSC. The liable party is also entitled to no-fault accident benefits from MPIC for medical services not covered by medicare, and for impairment benefits.

In 1987, under this arrangement, MPIC paid MHSC $2.6 million.

It had been the practice of MHSC, prior to Autopac, to give claims over to solicitors acting on behalf of the injured party. For this service, MHSC would allow the solicitor to retain ten percent of the value of the amount recovered. This practice is now not required to the same degree, thereby saving expenses.

The amounts paid from MPIC to MHSC represent the actual value of MHSC services on behalf of liable parties insured by MPIC. The recoveries to MHSC include compensation for hospital costs, physician services, chiropractic care, personal care home costs, prosthetic costs and orthotic costs. MHSC has written to me to say:

> "We have no reason to believe that our recoveries from Autopac are not equitable nor do we consider MHSC does not recover a fair proportion of our costs."

I find, therefore, that there is no subsidy of MPIC by MHSC under the recovery scheme now in place.

It has been said that the exact accounting of MHSC costs which is now required by the chargeback mechanism is expensive to administer. I am told that other provinces, such as Ontario, use a simplified procedure. In Manitoba, a less detailed "bulk transfer" of funds procedure would, in MHSC's opinion, lead to administrative savings to MHSC and Autopac. This idea merits further study.

Recommendation No. 3.08: That MPIC enter into a joint study with the Manitoba Health Services Commission in order to establish, by December 31, 1989, the benefits and costs to both organizations of initiating a simplified chargeback mechanism.

2. Department of Highways and Safety Programs

The division of driver and vehicle licencing (DDVL) of the Manitoba department of highways and MPIC share interests in many important services as described in other position papers. This extensive interrelationship poses a risk that the costs of these services are not properly apportioned between the two organizations. If DDVL were bearing an unfairly high share of costs, then it could be said that DDVL is subsidizing MPIC. DDVL argued to me that they are bearing a disproportionate share of the costs. MPIC disputes this position. In the limited time available to the commission, I could not determine the merits of either contention. There is sufficient evidence, however, to suggest that the cost-sharing system may be flawed.

Recommendation No. 3.09: That the Manitoba government empower an authority, independent of MPIC and the Manitoba department of highways, to conduct a study of the cost-sharing arrangements between MPIC and the department, and to report by December 31, 1989.

MPIC has for some years operated a safety program, including components such as the "Alive" campaign, a grant to the Manitoba Safety Council, the child safety restraint program (involving, in conjunction with the Jaycees, the provision of infant restraint car seats), dayglo vests for school patrols and "safe grad". These programs cost approximately $500,000.

In 1986, the Manitoba government directed the corporation to assume from the department of highways the vehicle inspection program, the driver education program and the snowmobile and bicycle programs -- along with preparation of revisions for The Off-Road Vehicle Act. These programs together cost about $2 1/2 million. The corporation is now in the process of evaluating these programs.

Since 1986, the MPIC budget for safety programs, summarized in Table 3.4, has grown accordingly, as David Roffey, consultant to the commission, determined.

Some vehicle safety programs benefit all society, not merely vehicle owners. In other words, a cost-benefit analysis narrowly focussed on MPIC's benefits and costs might not justify a program which would be supported by a benefit-cost study with a society-wide scope. For instance, the safe operation of bicycles may be sufficiently important to warrant expenditure by society but not, to the same degree, by MPIC. A second drawback of locating certain services at MPIC is that they are regulatory in nature. For example, the regulations establishing vehicle safety standards are within the portfolio of the minister of highways. Vehicle safety and inspection are regulatory functions of government and, accordingly in my opinion, should not be located at arms length from government in a Crown agency with other objectives.

The demerit point system, which triggers retraining, and the retraining itself are operated by DDVL. Driver education for first-time drivers is obviously related to driver retraining. Thus DDVL should operate all driver training/education programs.

Some of the transferred safety programs, if carried out in other provinces, would very likely be operated by the counter-parts of the Manitoba department of highways. (In Saskatchewan, however, like programs were also transferred to Saskatchewan Government Insurance in 1986.) David Roffey's observation is that:

> ". . . should MPIC be this heavily committed to Safety Programs? If this question is examined purely on the basis of benefit to the corporation, the answer is apparent - NO! The corporation does not receive a direct quid pro quo."

In my opinion, the question of safety programs must be re-examined by DDVL and MPIC. This examination should take into account the following:

- Whether vehicle safety and inspection programs should be regulated and operated by government (DDVL) not MPIC.
- Driver education programs are of joint interest to DDVL and MPIC although I believe that DDVL should take the lead role. MPIC should have a say in the curriculum and should contribute significantly to, i.e. up to 40 percent of, the associated costs.
- Other transferred programs should be evaluated for relevance to the objectives of MPIC and DDVL, and administered accordingly.
- As I recommend in Position Paper No. 10, MPIC should actively diversify and strengthen its own safety programs, whose cost can be justified by the benefits. It should focus particularly, though not exclusively, on promotional activities. It should, as a regular part of its business,

study the causes of accidents and consequential injuries in an effort to determine what new remedial or safety programs are warranted. It should consider relevant Canadian and U.S. experience related to premium rebates for air bags, passive restraints and so on.

Recommendation No. 3.10: That the vehicle inspection and driver education programs, transferred from the Manitoba department of highways to MPIC in 1986, be returned to the department in 1989; that other transferred programs be evaluated for relevance to the department's and MPIC's objectives by December 31, 1989, and that MPIC pursue aggressively the economical expansion of its own safety programs.

3. Investment Practices

The Manitoba Public Insurance Corporation invests its appropriated reserves in financial instruments, stipulated by law, including those of Manitoba hospitals, schools and municipalities.

About $280 million is invested in this fashion today.

In this regard, I accept and adopt the findings of Deloitte Haskins & Sells who comment:

> "The general indication is that MPIC's performance [i.e. rate of return on these investments] is approximately that of other insurers . . . ."

This finding is predicated on Table 3.5 reproduced from Deloitte Haskins & Sells.

I also concur with the conclusions reached by the University of Manitoba Research Ltd., which found:

> "There is simply no situation in which the premium pool of MPIC provides any extraordinary benefit to Manitobans compared to other capital sources in Manitoba."

I conclude that MPIC's statutorially-imposed limitations on investments are neither a material drawback nor a benefit to the corporation. Thus, there is no related subsidy either to or from MPIC. I am also of the opinion that there is no economic justification for MPIC investment to be confined to Manitoba. Nonetheless, there may well be a social justification to this practice, as it allows interested policyholders to witness first hand the benefits to building public facilities brought by these investments.

4. Services of Government

Certain services provided by the government of Manitoba to MPIC may represent a subsidy to the corporation. I have determined that the only significant services provided to the corporation are:

- Services provided by DDVL which are mentioned above.
- Investment services provided by the Manitoba department of finance, also mentioned above.
- Computer services provided by Manitoba Data Service (MDS), the Manitoba government's computer services bureau.

With regard to investment, the services provided are a small part of the responsibilities of the department of finance.

In Position Paper No. 9, I describe how MDS serves MPIC. For these services, the corporation pays an amount that reflects its share of MDS' costs. Since MDS operates on a breakeven basis, I do not believe that MPIC is subsidizing MDS; nor is there evidence of the reverse.

In conclusion, I believe there is no significant degree of subsidization.

5. Equity

The allegation is made that, because MPIC need not and does not have an equity injection from its owner (the government) as a form of capitalization, the taxpayers of Manitoba are subsidizing the corporation.

In this respect, I adopt the findings of Deloitte Haskins & Sells who write:

> "In regard to the theory that the government should inject . . . . capital ([a level of] one-third of premiums or approximately $80 million [would be analogous to private insurers]), it should be noted that the investor would expect a return on this investment . . . . This means that if the government put in $80 million and this in turn was invested by Autopac at 12%, generating $9.6 million in interest, Autopac would then need to pay this out by way of return on investment to the government. Autopac would not benefit and would be in the same net position. Policyholders would have an extra measure of protection against potential future losses of Autopac, although this is not a major concern under the present monopoly arrangement."

This reasoning is compelling. It leads me to conclude that there would be no net benefit to the government in making an equity injection. That is to say, if the government had $80 million to invest at 12 percent, it could do so in many other ways.

The fact that MPIC need not remit a return on equity is, in my opinion, an advantage of a publicly-owned insurance company. The resulting savings are enjoyed by policyholders.

In light of the above, I conclude that there is no subsidy of Autopac by the government of Manitoba through absence of equity. A subsidy could materialize if the government guarantee of coverage for future claims were invoked, and if MPIC were not required to reimburse government later. This situation has not occurred and is most unlikely to do so. As happened in 1988 when large losses materialized, MPIC in future would no doubt dip into its surpluses and later replenish these through rate increases.

6. General Purpose Grants

The Manitoba government makes no general purpose grants to MPIC. However, it could be argued that accident benefits -- which are available to everyone in Manitoba including young children -- are really benefits for all society, and should be paid for by all society, in effect through a general purpose contribution from the Manitoba government. According to a consultant, accident benefits amounted to $15 million in 1987. Therefore, the government of Manitoba would have been required under such a scheme to make a payment of about $15 million. As a consequence, the average Manitoba vehicle insurance premium would drop by about $20. The introduction of this proposal would cloud the issue of subsidy and I do not recommend it.

Finally, no evidence was obtained by the commission's researchers that government was somehow siphoning off funds from MPIC.

IV. CURRENT RATEMAKING AND PREMIUM SETTING

A. GENERAL PRINCIPLES OF VEHICLE INSURANCE

I adopt Coopers & Lybrand's commentary with respect to principles of vehicle insurance:

> "The purpose of any insurance, whether it is provided through a Crown corporation or a private insurer, is to protect an insured from a large and fortuitous financial loss. This is achieved by contractually transferring the insured's uncertainty of loss to the insurer for the certainty of a smaller payment called the premium. This uncertainty of loss is called risk and the management of it can vary quite significantly between insurers.
>
> "There are certain characteristics which are inherent in all forms of insurance. First, since the insurer assumes the insured's risk of incurring loss, the premium should be based upon the expected value of an insured's losses. This is the probable number of claims times the average cost of those claims. The premium should also include the expense of servicing the policy . . . .
>
> "From the insurer's point of view, the pooling of many insureds who are independently exposed to loss reduces the overall risk to the insurer, since it is unlikely that all insureds will suffer losses at the same time. In point of fact, the more insurance policies written by an insurer, the greater the likelihood that the actual losses of the group or pool of individuals insured[6] will come reasonably close the expected losses.
>
> "As a government-owned Crown corporation, MPIC very likely has a role in the implementation of public policy. Decisions may be made for example to charge lower premiums to certain groups, such as users of farm trucks, than might be suggested by loss experience. It is important to recognize this function for what it is, -- an instrument of social policy, designed to achieve a redistribution of wealth. It is not insurance, the purpose of which, as stated above, is the transfer and reduction of risk . . ..

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[6] I believe, in a relatively "small" market such as Manitoba, that one reason for allowing a monopoly is to maximize the size of the pool.

"Insurers use three basic methods to infer this information.

"First, they use wisdom and experience as underwriters in exercising informed judgement about the nature of the insured and the exposure to loss. A variation of this method when applied systematically with quantified parameters is called schedule rating.

"The second basic method of inferring an individual's expected loss is to observe the actual losses of the individual over a period of time . . . .

"The third basic method utilizes a system of grouping similar risks, and observing the experience of losses in that group over a relatively short period of time. This method is called classification.

"The first two methods are generally more appropriate for large commercial lines, where the risk insured is unique. The third method is particularly applicable to automobile insurance, where there is a large population of similar risks.

"Clearly, the classification method is particularly appropriate to the MPIC Autopac programme. An insurance classification system for any type of insurance, including automobile insurance, should contain the following conditions:

1. Similar risks should be assigned to the same class with respect to each variable. The division of insureds into homogeneous classes, for example pleasure drivers in Winnipeg, will provide a more reasonable estimate of expected losses for this type of insured than using pleasure drivers in Manitoba as a class.

2. The common characteristics used to identify insureds as similar should reasonably relate to the potential for loss. Drivers using their vehicle for work have a different potential for loss than pleasure drivers.

3. The classes should be well defined to help ensure that each risk is actually placed in the right classification.

4. The costs of administering a rating variable should be reasonable in relation to the benefits received.

5. The class rating factors should be susceptible to measurement by actual experience data. An insurance system, which is designed with the above mentioned characteristics, will be able to highlight high-risk, high-cost segments of the population and allow insurers to set premiums commensurate with the risks assumed.

"In using the classification method as a basis for rate setting, it is important that the data produced by the system is complete, accurate, and adequately reflects the experience of the particular group. The two leading indicators used are the loss ratio, and the loss cost. These are calculated as follows:

- [A] loss ratio is calculated by reference to the history of losses indexed for inflation and restated in present dollars, divided by the current revenue to be generated from the population of insureds. . . .
- The loss cost approach estimates the loss portion of the premium by comparing the expected losses during the prospective period with the expected exposure during the same period.

"These two methods provide the insurer with a starting point in the determination of individual premiums. Judgement still has to be exercised with regard to the information developed in order to set premiums for each classification."

B. THE CURRENT RATEMAKING SYSTEM

In order to judge the necessity for rate adjustments for a forthcoming insurance year, the corporation assesses:

- Its current and projected financial situation, incorporating projected increases in administrative expenses.

- Costs of claims incurred in the current fiscal year, including the costs of claims that will not be settled before the end of the year.
- The total number of claims experienced in the fiscal year.
- Actual loss ratios by territory and insurance use.
- Requirements to increase premiums to offset inflationary risks in vehicle repair and replacement costs.

The corporation conducts this review in September and October.[7]

Once the corporation has assembled this information, it prepares estimated (or pro forma) financial statements for the following fiscal year, assuming no rate increases. These statements then serve as a base case, a reference for assessing the effect of rate change scenarios. If a loss is projected, management will develop rate options to minimize or eliminate the loss. The prime objective, during this time, is to develop alternatives that will cause the corporation to operate at a near breakeven level or will replenish reserves. Consideration is also given to loss ratios, modifications to insurance coverage and the extent of current surplus.

[7] It should be understood that there is a lag between the fiscal year ending on October 31 (which is how results are reported to the public) and the subsequent insurance year beginning March 1 (for which any rate changes would be applicable). Thus, a rate increase, effective at the beginning of the validation year, will only increase revenues for the last eight months of the fiscal year.

A submission is then made to the board of directors for approval, indicating management's recommendations. This frequently occurs in November. Once the board approves a specific rate proposal, a cabinet submission is prepared and normally presented in December. Cabinet may direct that further options be considered. Once cabinet's approval has been obtained, the corporation proceeds with steps necessary to implement the rate adjustment from March 1 of the new validation year.

A summary of actual versus budgeted financial results for 1982 to 1987 appears in Table 3.6A.

1. How Rates Were Set for the Validation Years 1983 to 1987

For 1983, the board of directors received the ratemaking submission in November, 1982. At that time, the corporation was projecting an unanticipated $15.5 million surplus for the fiscal year just ended. This unanticipated surplus was attributed to 27,000 fewer claims being reported than projected, due to a mild winter and below average snowfall. A 1.5 percent increase to the payroll tax and an increase of one percent in the premium tax were forecast to increase costs in 1983. All in all, a shortfall of about $2.5 million was projected for 1983.

Two options -- one calling for graduated increases in rates according to loss ratios and the other calling for across-the-board increases -- were presented to cabinet to ensure breakeven operations. The option sensitive to loss ratios was accepted.

In November 1983, the submission for 1984 was accepted by the board. Rather than the breakeven position projected the year before, a profit of about $10 million had been realized for the fiscal year just ended. Forecast increases in claims for the upcoming year, 1984, accompanied by some increases in costs, left the corporation with a projected shortfall of $3 million for the 1983/84 fiscal year. Two options were presented to the board and to cabinet -- one calling for graduated increases according to loss ratios and the other for a flat across-the-board rate change. The graduated increase was accepted by cabinet. In this regard I must also report the specific findings of Coopers & Lybrand:

> "The corporation senior management reviewed all premium increases; and for specific categories, (e.g., light trucks and delivery cars in Territory 2), certain judgemental factors were considered in addition to the loss ratios. However, the corporation has no documentation which described the application of judgemental factors to rate increases . . . . [I]n management's submission to the board, there were a number of errors related to the 1982 actual loss ratios."

I believe the corporation should possess documentation of its reasons for exercising discretion. Concerning the errors, it may be unreasonable to expect none. Nevertheless, I believe there would have been fewer had MPIC had a more orderly ratemaking process which assigned explicit responsibility for ratemaking to a senior manager.

With respect to the 1985 validation year, the premium submission was considered by the board in October 1984. At that point, the surplus for the fiscal year coming to an end had grown from around $2 million, as budgeted, to \$18.8 million. This was the third year in a row that actual results were better than projected results. This profitable trend was projected apparently to continue into 1985. As a consequence, the corporation made two proposals to cabinet -- one was for increases of up to ten percent to be applied to categories with high loss ratios and the other was for increases of five percent to high loss ratio categories. The remainder of the categories in each instance remained untouched. This cabinet submission, for the first time in the period under review, was superceded by a further cabinet submission containing four proposals, among them:

- A five percent increase for high loss ratios, otherwise no change, for 1985.
- A two percent reduction for both 1985 and 1986.
- No increases for both 1985 and 1986.
- A two percent decrease for 1985 combined with no increase in 1986.

This was also the first occasion that a rate proposal covering the next two years had been presented to cabinet. Cabinet accepted the last of the four proposals.

The board's final review of rates for the 1986 validation year occurred in December 1985. The budgeted \$16.7 million surplus in 1984/85 had shrunk to a \$9.3 million surplus. This was the fourth year of surpluses, although for the first time it was below the budgeted level. I also note Coopers & Lybrand's comment that,

> "No information was provided in the submission [to the board] on budgeted premiums, investment income, operating expenses, volume of claims or claims costs. It is probable that management used unaudited actual results of the 1985 fiscal year end in the rate process, but no documentation was provided outlining the assumptions used to develop the 1986 rates."

This documentation should exist.

The corporation provided the board with four very similar options, two of which allowed for increases of three percent to five percent for vehicles in territories and use classes with high loss ratios and two of which embodied changes to certain coverages. About $3 million in losses were projected under all options. Cabinet accepted an option with modest increases of three to five percent for categories with high loss ratios. Coopers & Lybrand found, and I adopt their finding:

> "The judgemental factors used by management were not documented. . . . [C]ertain vehicle groups which had similar loss ratios and populations were treated differently . . . . In fact the all purpose group, Territories 1 to 4, which comprised 49% of the total vehicle population, was initially proposed by management to be included in the rate increase [group]. However, in the final submission to the board they were excluded from the rate increase, but no reason was provided by management for the exclusion".

I believe that these reasons should have been presented in the submission.

For 1987, the board submission was made in November, 1986. A loss that had first been forecast to be of about $1 million for the fiscal year just ended had now ballooned to $17.1 million. This worsening in MPIC's financial position was attributed to a sharp increase of 20 percent in claims costs and a one-time accounting adjustment to cover $5.3 million of estimated future costs for recently-legislated obligations to compensate claimants for pre-judgement interest.[8]

It was projected that a $22 million loss could occur in 1987 without remedial action. The corporation generated two rate proposals, one of which involved significant surcharging for high loss ratios. Cabinet subsequently directed ten additional proposals be evaluated -- involving combinations of general rate increases, surcharges on drivers, increase in third party liability extension costs and other adjustments. All options generated extra premiums in the $11 to $13 million range, i.e. about one half the forecast losses. Eventually an across-the-board increase of about 8.5 percent was selected, combined with very modest increases based on loss ratios.

Ratemaking for the 1988 Validation Year

1988 was an exceptional validation year because, even in the spring of 1987 -- that is nearly 12 months before the validation year started -- it was evident that anticipated losses for the current, i.e. 1987, year were escalating dramatically beyond earlier projections. Forecast losses were running as high as $68.5 million for the calendar year ending December 31, 1988. Based on an analysis of factors which the corporation believed were inflating losses, a number of diverse options were considered. This work, which went on throughout the year, culminated in a series of cabinet submissions. Very hefty surcharges for high loss ratios, a general rate increases of seven percent, and certain general caps on rate increases were adopted and announced.

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[8] Up until 1986, it had been the practice of the corporation not to pay interest for the time between the accident, to which the claim might apply, and the date of judgement on the claim. Courts, in other jurisdictions, had held that interest was payable to a claimant from the date of the claim, so action was required. This change in practice required the corporation to make greater payments and hence reserve greater amounts.

Public pressure later led to MPIC adopting discounts for drivers with merit points as a means to soften increases for good drivers. The net result of these premium adjustments by rating group, as experienced by one class of vehicle owners (namely, all purpose drivers in Winnipeg) is revealed in Figures 3.5A and 3.5B.[9] (The figure, incidently, allows for a comparison to the 1986 rate increases, which were equal across groups).

Generally speaking these figures show that the rate increases were "U" shaped, ie. more severe among lower and higher priced cars and less severe for "average" cars.

Conclusions Concerning the Ratemaking Process

I adopt Coopers & Lybrand's findings that:

> "Upon review, it is evident that between 1984 and 1985, the Autopac ratemaking process changed. Prior to and including 1984, MPIC management was instrumental in developing alternative proposals and making recommendations to the board which were then forwarded on for Cabinet approval. There was little or no change between what was initially recommended and what was eventually put into place

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[9] Figures 3.5A and 3.5B should be read as one. Practical difficulties and legibility prevented all the rating groups appearing on one figure.

> for the validation year. From 1985 on, Cabinet appears to have become much more directly involved in the ratemaking process . . . . [This is revealed in a comparison of the] recommended overall rate increases to the actual results as [in Table 3.6]."

I also adopt Coopers & Lybrand's findings that:

> "The rate setting process in insurance companies is statistically driven. The past history of loss development is important in predicting the likely development of losses in the future. Although it is subject to fluctuation by causes such as weather patterns, automobile insurance -- by its nature -- is a relatively stable line of business. However, it would appear from a review of the facts that the appropriate statistical and financial data were either not available or not considered appropriate for use in the rate setting process for 1987 or 1988.
>
> "Our review of the information available in the corporation suggests that, in particular, information developed for the ratemaking process does not fully meet the standards required for actuarial analysis . . . . [Further], we found that the allocation of rate increases to various groups was, at times, somewhat arbitrary, and based on social and political rather than insurance considerations. We also believe that certain of the vehicle classifications warrant review, because the premiums charged for some groups do not appear to be supported by industry statistics."

The weaknesses catalogued by Coopers & Lybrand seem to me to be symptoms of a more profound problem which Coopers & Lybrand also identified:

> "The corporation should formalize the rate setting process. This would entail documenting the procedures required to be followed in order to produce the annual Rate Proposal to the board of directors. A management committee should be established to set out the roles and responsibilities of specific management positions, set deadlines for specific tasks and indicate the management and committee reviews required before the rate proposal is presented to the board."

In other words, the corporation lacked a formal internal process for ratemaking and premium pricing, with suitable checks and balances. In my opinion, these weaknesses may also stem from lack of a single senior individual being responsible for ratemaking. Under the current organization of MPIC, appearing as Figure 3.6, that single responsibility should be vested in the chief underwriter, who should possess sufficient professional and actuarial knowledge to ensure that ratemaking is sound.

Recommendation No. 3.11: That management and the board of directors be granted the authority publicly by government to finalize rates, subject only to review by the Public Utilities Board.

Recommendation No. 3.12: That, effective not later than insurance year 1991, MPIC develop an actuarially-sound and statistically-driven ratemaking system.

Recommendation No. 3.13: That, effective not later than insurance year 1990, MPIC management assign rate-making responsibility to a new senior management position with such assistance, including actuarial assistance, as may be required for managing the internal ratemaking system.

C. PRICING OF PREMIUMS

There is an important distinction between determining the rates that should apply for various classes of vehicles and actually pricing the related premiums. It is accepted practice that the pricing of premiums among private insurers will not depend simply on the profitability of a particular coverage but will reflect also the insurance marketplace.

For example, some highly competitive or new lines of business might be priced at less than cost while others may be priced above cost.

There is scope for unjustified premium pricing in Manitoba as no market place for basic vehicle insurance is allowed by law. The only competitive sectors are in extension coverages. Even this competition may be more apparent than real: for example, MPIC has a natural advantage because its administrative structure is widely and conveniently dispersed throughout the province, including claims services. It is also not convenient for a claimant to be obliged to approach MPIC for basic reimbursement and a private insurer for reimbursement on supplementary coverages. The situation is similar to that in British Columbia, where ICBC is in competition with all private insurers with respect to collision insurance. Because ICBC -- as a monopolistic supplier of bodily injury and third party insurance -- is able to maintain a string of claim centres around the province, it is positioned to discourage private insurers from competing. Thus, about 98 percent of the so-called competitive collision insurance is provided by ICBC.

Indeed, MPIC's natural advantage is so secure in the extension marketplace that it is able to charge more than it needs to. It was reported to me that the special risk extension (SRE) business for commercial vehicles is profitable, generating $1.7 million a year in operating income. Moreover, the extension coverages for automobiles, accounted for as part of the basic Autopac, are also quite profitable overall (although some components, such as the buy-up to $2 million in public liability, may not be). Profits may exceed $1 million. MPIC, as a public monopoly, has a special responsibility to ensure that premiums for extension coverages are not overpriced, even though any excessive profits are, in effect, returned to other policyholders through lower rates. Such a situation would amount to a cross-subsidization of one aspect of the business by another.

Even with respect to basic coverage, some leeway exists to price premiums according to factors other than the rates indicated by the ratemaking process. Among the legitimate factors are the need to moderate massive rate increases in any one year and the need to honour directives from the owner.

Recommendation No. 3.14: That, effective not later than insurance year 1990, premiums for extension coverage be set in accordance with risks and costs.

V. INDIVIDUAL RATING ISSUES

> "The City is currently subsidizing the country folk because of politics once again . . . . [It] is possible to insure a brand new $20,000.00 truck for approximately $260.00. To insure the same vehicle in the City would cost between $600.00 and $800.00". -- Automotive Trades Association.

> "Motorcyclists with good driving records do not receive a discount on their insurance . . . . [M]otorcycle insurance is prorated so that your return is almost nothing when you take in your plates in the Fall . . . . [M]otorcyclists are not given the benefit of a time payment plan . . . . [P]assengers on motorcycles are not insured . . . . unless an additional policy is purchased . . . ." -- Manitoba Motorcycle Club (Don Charleton).

> "I'm concerned with the inability of the system to recognize the good driving records of drivers having recently moved into Manitoba (which private insurers do in some other province)." -- Denis C. Auger.

> "A lower insurance rate for a $500.00 deductible is necessary, especially for less well-off people with older vehicles (such as myself)." -- R.J. Vipond.

> "There are lots of folks around me who have 5 merits and its doubtful if they drive 500 miles in a year . . . . time not miles gives them the merits they have not earned . . . ." -- P. Wilkinson.

Clearly, policyholders are demanding a high degree of fairness from MPIC. The Concise Oxford Dictionary defines fair as "just, unbiased, equitable, legitimate, in accordance with rules". In the following sections, I intend apply the spirit of this definition to judge a number of specific issues raised with the commission.

One of the tools which I utilize to assess relative fairness in ratemaking is the loss ratio, as calculated by MPIC. Unfortunately it is not possible to base inferences conclusively on the calculated loss ratios. As Coopers & Lybrand point out, in order to establish a trend for loss ratios one must inflate, or "restate", past premiums earned according to 1988 premium rates. MPIC does not appear to restate past loss ratios, so the trends I examine below are merely illustrative of what the situation has been.

About MPIC's loss ratio data Coopers & Lybrand write:

> "The loss data are not maintained by accident year and the income used in calculating the loss ratios may not relate to the losses used in the ratio. Furthermore, ... actuarial loss development analysis . . . . is not carried out. In our view, this is a major weakness because the data which are used to set rates are not subject to the rigor of a full actuarial analysis . . . . We believe that this may be the cause of some of the wide swings between expected and actual loss ratios. We have partially restated the loss ratios on the basis described in this report. The differences in the ratios used by MPIC and the ratios calculated by us are significant. Clearly very little can be done in a meaningful way to set rates when the underlying data is inadequate."

These observations mean that the trends in MPIC's loss ratios are not very meaningful and any conclusions based upon these trends must be accordingly tempered. In one specific case, related to motorcycles, Coopers & Lybrand attempted to restate the loss ratios over the past 5 years to 1988 terms. Trend-lines for the original and restated loss ratios were obtained and are presented in Figure 3.12. The noticeable divergence in the two trend-lines (and so in the conclusions supported by those trend-lines) exemplify the effect of restating losses.

A. RATING GROUPS FOR PASSENGER CARS

The rating group system classifies cars according to the manufacturer's base price for each year, model and make and assigns new cars to one of nine groups 5 to 9 or A, B, C, D and older cars to a further five groups, according to the general categories of car's value set out in Table 3.7. Premiums are fixed by groups. The system suffers from many flaws:

- MPIC has not calculated loss ratios by rating group as a required step in its ratemaking. Thus the statistical, actuarial or even the insurance validity of the rating groups cannot be assessed. This means that the premiums charged to owners of cars cannot be determined to be fair. This is not acceptable; it is a systemic failure of MPIC's rating and pricing system.

- MPIC uses the manufacturer's base factory price (without options) to assign a passenger car to a rating group. This approach is simple but its simplicity has drawbacks. First, it means vehicles with all options included in the base price, often foreign cars, are rated higher than the same vehicles which can be purchased in basic form and retro-fitted with those same options. Second, the repair history of a vehicle make and model is apparently not explicitly considered when the assignment to a rating group is made. This is a significant flaw because two-thirds of vehicle damage costs relate to affecting repairs, while the remaining one-third relate to total losses.

  The U.S. highway loss data institute (HLDI) methods are less arbitrary, though more complex, than those used by MPIC. They account for repair costs, the prevalence of accidents, and the original price by make and model. This approach would need to be tested for exact applicability in Manitoba.

Until other rating system problems can be addressed comprehensively, the factory base price is a key factor governing classification of a vehicle to a group. It can not be discarded suddenly. Therefore, MPIC's use of base factory price must continue for a limited time.

- I do not understand why some rating categories cover such wide ranges of passenger car values, while others cover narrow ranges. Many rating groups, especially 2 through 6, have few vehicles in them. There is no written description of the criteria used by MPIC to assign vehicles to these groups.

- Van and station wagons are automatically increased by one rating group. This rule does not apply to vans and station wagons in rating groups 0, 9, A, B, C or D. These special rules were not noted by members of the public during any hearings -- and perhaps it is an unknown practice. Higher premiums for station wagons and vans are not justified by any data MPIC could provide. Indeed, U.S. experience suggests these vehicles have lower than usual claims costs. This practice, if not justified publicly, should be stopped.

Recommendation No. 3.15: That, effective not later than insurance year 1991, MPIC revise thoroughly the rating group system to reflect loss experience.

Recommendation No. 3.16: That the original factory base price criterion for assignment of a passenger car to a rating group be eliminated in not more than two years.

Recommendation No. 3.17: That the special rating of vans and station wagons, if unjustifiable, be stopped effective insurance year 1989.

B. VINTAGING OF VEHICLES

As a vehicle ages, its write-off value declines. In contrast, its cost of repair may rise, as parts become harder to acquire or as rust impedes dismantling. However, the repair cost to MPIC likely does decline because a depreciation factor is built into repairs of moving parts, such as the tires, motor and transmission. That is, any "betterment" which the repair produces must be paid by the claimant. In keeping with insurance principles, MPIC should and does reduce premiums to reflect the lower exposure associated with older vehicles. I refer to this practice as vintaging.

The question before me, therefore, is whether the premium reductions, accompanying vintaging, are fair.

The principle means which MPIC uses to reduce premiums is to assign an aging car to a lower rating group. At present, MPIC has an unwritten policy of not vintaging an older model to a lower rating group until the model is at least ten years old. Thereafter, vintaging of a particular model and year to a lower rating group is examined on a case-by-case basis by the corporation, without written guidelines. This examination may result in a drop of a couple of rating groups every year, until that make/model/year finally comes to rest in rating group 0.

There are several weaknesses with this process:

- It is inconsistent that while all-perils benefits (that is, generally, those benefits related to vehicle damage) are lessened by depreciation of moving parts year by year, the vehicle rating group and, so, the premium is not decreased for ten years. For example, the premium on a new $12,000 car in rating group A might be $540. A year later, once that car has depreciated to $9,000, the rating group remains at A and so the premium remains at $540. (The premium may actually increase, if general rates rise.) After nine years the vehicle may have depreciated to $2,000, but it remains in group A. That same group A will then contain cars worth $2,000 and new cars then worth $12,000. Owners of both cars will pay the same premium. While the repair costs of the $12,000 and $2,000 cars may be the same (a contention MPIC should study), the write-off values are patently vastly different. This is especially troubling when one recalls that write-off costs are one third of total vehicle repair costs.

- It is unacceptable that written policy guidelines do not exist for vintaging.

With respect to the population of older cars, their numbers are indicated in Figure 3.7. The figure shows that older cars represent an important percentage of the total vehicle population. The marred process of rating these cars is therefore a matter of concern.

Evidence available to the commission does indicate that, whatever the fundamental flaws with respect to rating groups and the vintaging processes, higher loss ratios were being experienced by MPIC during 1987 in insuring vehicles in the lower rating groups. MPIC's reaction to this situation in 1988 is expressed in Figures 3.5A & 3.5B showing above-average percentage changes in premiums from 1987 to 1988 for those older cars. Owners of cars in rating groups

0 through 4 experienced rate changes in excess of 20 percent, and some owners were expected to pay 33 percent more. These increases may have been merited in a general way, although the information systems are too crude to provide a definitive answer. Nonetheless, in my opinion, the increases are too precipitous for any one year.

I conclude that:

- There is no risk-related justification nor written policy at MPIC with respect to why a vehicle is frozen for ten years in its original rating group.
- There is no risk-related justification nor written policy at MPIC with respect to the reassignment of vehicles to lower rating groups once the ten year period has lapsed.
- The ten year assignment to one rating group is inequitable, as over a ten year span a car may decline in value by 80 percent.
- The corporation's premium increases for older vehicles in 1988 may have been partly justified by MPIC's loss experience but were too large in percentage and dollar terms.

Recommendation No. 3.18: That revisions be made to MPIC's vintaging or downgrading policy, in conjunction with the revamping of the rating groups, to reflect more accurately MPIC's risks; and that, effective not later than insurance year 1990, a written vintaging policy be prepared which takes into account the value of total losses, and the cost of repairing cars, less acknowledged depreciation.

C. ANTIQUE AND OTHER "OLD" CARS

The way Autopac treats "antique" cars, that is, ones older than 30 years, and other old cars is summarized in Figure 3.8. No criticisms of the treatment of antique cars was voiced to the commission.

The commission heard representations that a special insurance category for cars 15 years old, but not yet 30 years old, should be instituted. However, I have determined from MPIC that, if an owner of a car 15 to 30 years old wishes to purchase more than basic insurance because the condition of the car has improved its value, then MPIC can be approached to insure the car, after an MPIC appraisal (which remains valid for two years), under an agreed value policy individually underwritten through SRE. The owner may also proceed to insure the vehicle with a private insurer.

The owner may also wish to purchase less than basic insurance, because his/her car is used only rarely. In effect, this is now prohibited: the lowest level of classification today is preferred use. Instituting a use based on lower risk exposure than preferred use would suffer from some drawbacks:

- Many policyholders -- regardless of their vehicle's age -- might opt for it, thus lowering MPIC's overall premiums earned and requiring in turn higher premiums from the remaining drivers. This problem would be exacerbated because it would be difficult to limit the category to low-mileage older cars, instead of all low-mileage cars.

- It would certainly add a level of complexity to MPIC's rating systems.

On the other hand, low mileage is a rating criteria employed elsewhere in Canada. MPIC might offer special plates to identify "collector cars" and provide coverage at reduced rates, if they were used only for display. As a monopoly MPIC should be responsive to consumer demand when this demand is reasonable and accommodation is feasible.

Recommendation No. 3.19: That, effective not later than insurance year 1990, MPIC institute special coverage for cars over 15 years old used solely for display purposes.

D. NEW CAR REPLACEMENT INSURANCE

MPIC compensates claimants for write-offs on the basis of the depreciated value of the car. Because new cars depreciate rapidly, a claimant may not be sufficiently compensated if the car is a total loss. There may be merit in the corporation offering new car replacement insurance.

This was not a concern brought to the attention of the commission during its public hearings, nor through briefs. However, MPIC is now considering a plan to offer new car replacement insurance through SRE. I support this initiative.

E. INSURANCE USES

1. Farm Cars and Farm Trucks

By way of introduction to this section and the next, Figure 3.9 contains unadjusted loss ratios for selected insurance uses.[10]

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[10] As Coopers & Lybrand note, MPIC's loss ratio data are flawed; so any related inferences here and elsewhere in this position paper must be viewed with caution.

An examination of the Figure shows that basic insurance of light farm trucks has experienced loss ratios consistently and significantly above the breakeven point of 85 percent, for the corporation.[11] There would appear to be no insurance reason to maintain the premiums, for these vehicles at deficient levels. This seems to be a case of subsidy of a particular class of vehicles, hidden to all but an observer with access to detailed records, related to the social purposes of the government -- not the business purposes of the corporation. If the government wishes to provide a subsidy, then it should make a public grant to MPIC, earmarked to cover the difference between the actuarially-fixed rate and the price actually charged to farm trucks.

Recommendation No. 3.20: That, effective not later than insurance year 1990, the rating of farm trucks be made relatively consistent with the ratings for other vehicles; that is, premiums should depend on the loss experiences for these trucks.

With respect to farm cars, the special reduced premium structure (for instance, $154 compared to a $190 preferred rate or a $245 all purpose rate) was originally developed, MPIC tells me, to assist a person engaged in farming with no other gainful occupation. The assumption was that the vehicle would be used primarily for pleasure driving in rural areas. MPIC now believes that the wording in The MPIC Act allows a farm car to be used in another business or as transportation to another job. Perhaps as a consequence, as Figure 3.9 shows, the losses since 1984 have been above the breakeven level. This persistent pattern may indicate a degree of subsidization from other policy holders.

[11] The 85 percent breakeven level does not take into account claims adjustment expenses or general administration expenses.

Recommendation No. 3.21: That, effective not later than insurance year 1990, the definition of a "farm car" in The MPIC Act and regulations be amended so as to exclude vehicle use for non-farm purposes and that rates for farm cars be brought into line with the loss experiences for these cars.

2. All Purpose Use

It would appear that loss ratios for all purpose use have exceeded the breakeven point for each of the past five years (See Figure 3.9).

Recommendation No. 3.22: That, effective not later than insurance year 1990, premiums for all purpose use be modified to reflect loss experiences for this use.

Also there has been a noticeable tendency over the past five years for more vehicles to be registered in preferred use and fewer in all purpose use. I understand from MPIC that this is partly due to removing the age and sex classifications in 1986. At that time, a number of individuals were offered the opportunity to move to the "preferred" class rather than the "all purpose" class in order to moderate the effect of this anti-discriminatory step. The opportunity to revert to preferred use was offered in particular to students.

MPIC officials also attributed part of the shift toward preferred use to policyholders learning how to take advantage of certain loopholes in MPIC's regulations. For example, an owner can enjoy a preferred rate if a vehicle is "not ordinarily driven to or from work".

This phrasing is problematical because:

- "Not ordinarily" is not defined.
- Travel part way to work is not covered, and
- Being driven to work by a third party (who is not going to work) is not covered.

The number of cars registered to all purpose use is declining for reasons which may offend insurance principles and equity considerations and which may reflect statutory weaknesses. Certain changes to the act might halt this erosion and allow equal treatment of all those policyholders who use their passenger cars in the fashion contemplated for the all purpose use.

Recommendation No. 3.23: That, effective not later than insurance year 1990, The MPIC Act and regulations be amended so as to enable MPIC to control more carefully the policyholders to whom the preferred classification is to apply.

3. Students

Commencing with insurance year 1986, any student, regardless of age and marital status, who drove to work was offered the opportunity to insure a car under preferred use, rather than all purpose use. Students, therefore, who drive to school enjoy a better rate than their teachers who must pay all purpose rates. Yet, quite obviously, both teachers and students drive the same streets to school and are exposed to the same risks. Therefore this lower rating for students must represent, in my opinion, a subsidy of students.

Recommendation No. 3.24: That, effective not later than insurance year 1990, a student who drives a car to school be charged all purpose rates.

4. Commuting

Many submissions to the commission alleged inequities with respect to commuters from Territory 2 (outside Winnipeg) driving into Winnipeg. It was argued that commuters are as much at risk as city residents and, if they traverse Winnipeg each day, possibly more at risk.

The commission learned that in some jurisdictions in Canada "commuting" is a recognized use. I understand further that MPIC has conducted an analysis of Manitobans residing in Territory 2 near Winnipeg and there appears no reason to adjust rates for all those merely resident in the adjacent territory; somehow the commuters alone must be identified.

In effect the solution must depend upon an increase in rates for commuters while holding constant the rates for non-commuters. In my opinion, the corporation should consider creating a commuting use code or alternatively, perhaps, charging the highest of the rates for the two territories of residence and work.

Recommendation No. 3.25: That, effective not later than insurance year 1990, MPIC develop a proposal to charge increased rates for commuters, either by changing the criteria used to assign vehicles to territories or by means of a new use code specifically for policyholders who work or attend an educational institution in a territory with higher rates than their territory of residence.

F. LEASED AND RENTAL PASSENGER CARS

1. Leased Cars

In 1988, the corporation assigns leased cars to a special insurance use, and charges premium rates identical, with few exceptions, to business rates. However, a leased car could be put to uses (other than business use) for which lower premiums are ordinarily obtainable (eg. preferred use, all purpose use and so on). MPIC acknowledges these inequities.

I find that the leased category is inequitable to people who wish to use the car for other than business purposes.

Recommendation No. 3.26: That, effective not later than insurance year 1989, the "leased" use be discontinued by MPIC and that leased passenger cars be classified for insurance purposes according to the use to which they are put.

2. Rental Cars

With respect to rental cars, rental agencies offer renters options for "buying down" deductibles, often from very high levels to very low levels. The information in Table 3.9 was received by the commission as quotes from two major car rental agencies in Winnipeg. These buy-downs of the deductibles are at rates much greater (eg. $10/day or $3,650/year) than the rates MPIC would charge for full coverage at a $350 deductible, for a U-drive 1988 luxury car such as a Ford Taurus LX (i.e. $1,500/year). A deductible buy-down to $250 is obtainable by individual rating through SRE.

This damage waiver and deductible buy-down practice did not prompt public comment to me. However, I am of the opinion this practice could lead to complaints such as:

- It is improper for car rental companies to present themselves as suppliers of insurance.
- Statements by car rental companies about the deductibles they must pay, absent a buy-down, are inaccurate.
- The amounts charged are unreasonably high for the coverage provided.

The rates the rental companies charge may also be criticized for not reflecting different uses to which a car may be put -- business, all purpose or preferred, for instance.

I recognize that the collision damage waiver practice may have grown because the car rental companies, in the face of intense price competition, have fought to keep the advertised daily vehicle rental rates at artificially low levels. Nonetheless, recognizing concerns such as those above, the national association of insurance commissions in the United States has endorsed a proposal to support legislation to eliminate the collision damage waivers charged by car rental companies.

The current damage waiver and deductible buy-down practices with respect to car rental insurance is incompatible with the rates charged by MPIC. Moreover, the basic vehicle insurance should be solely provided by MPIC.

Recommendation No. 3.27: That, effective not later than insurance year 1991, The MPIC Act and regulations be amended so as to clarify that MPIC alone may provide, lawfully, basic insurance coverage on rental vehicles at scheduled rates.

G. LICENCING AND INSURING VEHICLES FOR DEMONSTRATION FOR SALE

The owner of a vehicle for demonstration for sale may adopt one of two avenues to achieve the purpose of registration and licencing:

- He or she can register and insure the vehicle in the usual fashion, pay the required premium, and then apply for a rebate when the demonstration is over. Depending on the individual's cashflow, this would cause various degrees of financial difficulty. Also, by virtue of the current rebate system -- whereby premiums are rebated monthly not daily -- a person could use the registration for a few days spanning two months and pay two full month's registration and insurance.
- The Highway Traffic Act also allows an individual to register and insure a vehicle for a period of up to 30 days, under certain circumstances.[12]

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[12] The circumstances are:
- One to 30 days maximum.
- An applicant must specify uses such as demonstration for sale, transporting to have repairs made, or for emergency use while another vehicle is disabled.
- Can be used only for the specified use.
- Is available only through DDVL offices, and not through Autopac agents. DDVL has indicated they would process such applications by mail if they received all the necessary information.

DDVL appears concerned that this latter type of registration is difficult to control and open to abuse; accordingly, DDVL does not authorize Autopac agents to process this transaction. There is no evidence that DDVL does control it better. By limiting access, DDVL is probably limiting legitimate, as well as possible illegitimate, use.

This restriction, in my opinion, is unnecessary.

Recommendation No. 3.28: That, effective insurance year 1989, the use "demonstration for sale" be made available through Autopac agents.

H. FLEETS

Any person or corporation who owns ten or more vehicles may apply to MPIC to have the vehicles licenced as a fleet. About 800 owners of approximately 24,000 vehicles take advantage of the fleet program. The program's justification is that the owner of a fleet can instruct his or her drivers to adopt certain driving practices, calculated to lower claims. A benefit is then returned to the fleet owner through a rebate reflecting low loss experiences; a surcharge, if warranted, is applied where higher losses materialize.

The 1988 surcharge and rebate program is outlined in Table 3.10.

I understand that loss ratios for fleets have tended to average 65 percent. What this means is that (when adjustments to the loss ratio are taken into account to include overhead) fleets cost MPIC about 85 cents for every dollar of revenue. Consequently, about $3 million in rebates are repaid annually while $0.4 million in surcharges are collected. This process is not unreasonable, in my opinion, although alternatives do exist.

Another approach would be for the corporation to rate each fleet according to its recent loss experience and then apply a further rebate or surcharge if the actual experience varied from the expected level. This general approach has been adopted at ICBC. The amount of rebating and surcharging probably would be less than the amount of reimbursement which is now required, thus lowering administrative costs. However, there would likely be greater collection of additional surcharges than now, and this could be a source of collection problems.

In my opinion, loss ratios for fleets justify either a rebate program and/or an experienced-based reduction in insurance premiums. I would not wish to make a recommendation with respect to a specific parameters of a surcharge/rebate program.

Recommendation No. 3.29: That, not later than December 31, 1989, MPIC complete a study of fleet ratemaking to provide for more extensive individual underwriting of fleets and for the setting of rates, possibly supported by a system of rebates and surcharges, that reflect MPIC's loss experience with specific fleets.

I. TRUCKS

MPIC, of necessity, follows rather sophisticated criteria in order to properly establish the uses of trucks and, accordingly, to price premiums. Nonetheless, these criteria may be unfair: it has been alleged by the Manitoba Trucking Association that public service vehicles (PSVs) -- that is those which carry other persons' goods -- pay higher premiums than similar commercial trucks (CTs) -- those that carry the truck's owner's own goods for commercial purposes.

The premiums charged for selected trucks in 1988 are illustrated in Table 3.11.

MPIC contends that loss ratios are unfavourable for PSV plates, even with premiums higher than for CTs. This information appears to be correct. However, it may be that an examination of loss ratios for all larger vehicles (the commercial truck classification includes a number of smaller vehicles as well [illegible] a straight comparison of the total PSV class to the total CT class could be misleading) would support the position put forward by the Manitoba Trucking Association. MPIC can not provide the relevant information to decide the issue in these terms.

Therefore, while I am unable to conclude that there is discrimination, further study must be undertaken.

Recommendation No. 3.30: That, effective insurance year 1989, MPIC review its ratemaking for heavy commercial trucks and public service vehicles and either publicly justify the rating differences or eliminate them.

The Canadian Agreement on Vehicle Registration is an interprovincial agreement allowing truck fleets to register and base plate (i.e. insure) in any province where the fleet does ten percent or more of its business. Other provinces are then assigned a share of the registration fee, according to relative fleet mileage within their boundaries. This single registration saves administrative complexity and costs for truckers and governments. It also means that Manitoba trucks can insure elsewhere, if the proportion of business there allows it, while other provinces' trucks can register here.

Until recently, MPIC kept truck deductibles for all perils coverage at not more than $650 and allowed a maximum public liability of $5 million. Truckers wanted up to a $20,000 deductible and $20 million in liability. When MPIC didn't offer these levels, truckers who could obtain that coverage elsewhere. At the same time, I am told, poorer risks from other provinces base-plated in Manitoba; MPIC did not have the statutory authority to reject these risks nor surcharge sufficiently.

It has been reported in the press that MPIC and the truckers are now negotiating changes to the MPIC coverages in order to curtail the outflow of good risks and inflow of poor risks. This is encouraging. However, I must say I found it curious that MPIC did not react with greater flexibility to make adjustments much earlier.

Recommendation No. 3.31: That, effective not later than insurance year 1991, trucking rates be experience-based, and that, effective not later than insurance year 1989, offered coverages be sensitive to the requirements of the trucking market.

J. TERRITORIES

MPIC divides Manitoba into four territories. Premiums and loss experiences are similar among Territory 1 (Winnipeg), Territory 3 (between 53rd and 55th parallels), and Territory 4 (north of the 55th parallel). Premiums and losses in Territory 2 (i.e. the remainder of southern Manitoba) are about 60 to 80 percent of those elsewhere. There appear not to be cross subsidies among territories.

The apparent appropriateness of differences in rates among the territories is not an indication of the fairness of the rates within the territories. It may be that the current territories disguise significant variations in experience. For instance, the city of Brandon is located in Territory 2. Although I did not inquire into losses experienced by Brandon vehicle owners, these losses may well be higher than those of nearby farmers. This is a complicated question to investigate thoroughly. Therefore, I propose that the corporation conduct a statistical analysis of the geographic pattern of its losses to ascertain whether its experience within the current territories is homogeneous.

Recommendation No. 3.32: That, before December 31, 1989, MPIC report on a thorough examination of both the geographical dispersion of Autopac losses and the opportunities to strengthen the homogeneity of loss experience in the territories used for Autopac ratemaking.

There are those who argue that rates in the north, even if they reflect actual risk, are too high because they derive from circumstances beyond the policyholder's control, such as weather, quality of roads, repair costs and the like. This argument has merit in special cases -- e.g. in isolated communities such as Thicket Portage where it was reported to me there are seven vehicles and two km of roads, I was told. Otherwise, however, I have had to conclude that the arguments presented by northerners does not withstand scrutiny.

Northern motorists advance the argument that since insurance costs are higher in the north than in Territory 2, only because of geographical factors which they cannot control and factors that are unique to the north, they should be subsidized by other motorists who need not contend with those factors. What then of the Winnipeg motorists who would contend that it is density of traffic, a factor unique to Winnipeg and within no one's control, that places Winnipeg's rates as the highest in the province? Should Winnipeg residents be subsidized? And if so, by whom? Should Territory 2 residents be called upon to pay more into the system than the costs incurred by their accidents?

MPIC is a government corporation. It is not the government. It has no mandate to relieve economic, social or geographical disparity. Those are functions of governments. MPIC's mandate is to provide good insurance and good service at the best possible price. It is expected to operate as a business.

I am unable to recommend subsidized rates to motorists in the north.

K. PASSENGER CAR DEDUCTIBLES

From 1971 to 1987 the standard deductible for passenger cars remained at $200. During those 16 years, the deductible could be bought down by the policyholder to $50 or $100; if bought down to either level, then the deductible for comprehensive and glass coverage was reduced automatically to $50 from $200. In 1988, the basic deductible was raised by 75 percent to $350 or about $120 in 1971 dollars. The $350 deductible can be bought down by $100 or $200. Under either of these buy-downs, glass deductibles are reduced to $100 from $350.

MPIC expressed the view to me that under the pre-1988 arrangement, a $50 deductible (worth about $15 in 1971 terms) for all perils coverage represented a means for an owner to obtain insurance services to fix minor dents and scratches of uncertain origin. In a sense, the coverage had allegedly become a car maintenance rather than a car repair program. This characterization makes sense to me.

The corporation estimated that the increase to $350 in the basic deductible level, along with associated changes to the buy-downs, would decrease claims costs by about $11 million or seven percent. The actual savings to MPIC may well be greater than this (as preliminary financial figures for 1988 indicate) because individuals with claims of just over $350 are not necessarily reporting these claims. This under-reporting may be due to the fact that the merit reduction on vehicle insurance is only available to those without an at-fault accident in the past year.

The basic deductible is $500 in Saskatchewan. In British Columbia the deductibles that can be purchased are $100, $200, $300, $500 and $1,000.

No matter what the merits of the increase to the deductible, a 75 percent unheralded jump in one year is simply too great.

Based on these observations, I am of the opinion that the increase in deductible for 1988 was justified but was unacceptably steep for any one year. In my opinion, also, deductibles should regularly keep in step with repair costs or inflation, but annual increments should only be triggered when increases of $25 or so are called for.

Recommendation No. 3.33: That, effective insurance year 1989, increases in deductibles be introduced regularly and gradually and parallel increases in vehicle repairs and/or the cost of living; and that deductibles only be increased in reasonable increments (perhaps $25).

1988 premiums for selecting the $100 or $200 buy-down of the deductible (that is, from $350 to $250 or $150 respectively) rise with rating group according to Table 3.8, even though the amount of extra coverage being purchased is the same by rating group. MPIC has informed me that some differences in premiums among rating groups might be justified because owners of older cars may not make minor repairs. But MPIC acknowledges that the actual differential in buy-down premiums is not justified.

Recommendation No. 3.34: That, effective not later than insurance year 1991, MPIC base the premium for deductible buy-down on actual loss experience for each rating group.

It was advocated by people who addressed the commission that policyholders be permitted to choose higher deductibles than $350, such as $500 or $1,000. A suitable reduction in premium would be provided. Optional higher deductibles have merit for MPIC. First, by recording how many policyholders opt for higher deductibles, MPIC can assess better whether a future upward adjustment to the basic coverage is warranted. Second, there is evidence from ICBC that higher deductibles are purchased by owners of older cars. Some of these B.C. vehicle owners actually may be buying a deductible above the total loss value of the vehicle. In effect, these drivers are foregoing all-perils coverage. The B.C. evidence seems to indicate that, as a consequence, total loss costs there are proportionally below those at MPIC.

Recommendation No. 3.35: That, effective insurance year 1989, deductibles higher than $350, with a maximum of at least $1,000, be offered as options for passenger cars, and that premiums be reduced commensurately.

L. UNDERINSURED MOTORIST PROTECTION

Underinsured motorist protection is available through Autopac but must be purchased as an extension to basic coverage. It provides indemnification in case of bodily injury caused by the negligence of:

- another Manitoba motorist whose third party liability (TPL) coverage is insufficient to meet a judgement. For example, the judgement might be $500,000 while the negligent driver only carries the minimum TPL of $200,000.

- a motorist from another jurisdiction carrying little or no TPL who either injures a Manitoba driver within Manitoba or elsewhere.

I am not sure that all Manitobans understand that by not purchasing this cover for about $5 to $15, there is a danger of being seriously injured by a driver without sufficient liability insurance. Only those insured who purchase additional third party liability coverage above the $200,000 basic insurance are eligible to purchase underinsured motorist protection at all. This restriction is not justifiable and should be removed forthwith. In 1988, about 80 percent of eligible motorists purchased this cover, with its minimum value of $200,000.

Recommendation No. 3.36: That, effective insurance year 1989, as part of the basic Autopac coverage, MPIC provide automatic protection for claims against underinsured motorists up to the limit of third party liability purchased.

M. CROSS-SUBSIDIES AMONG COVERAGES

MPIC provides basic vehicle coverage in five basic areas -- accident benefits, collision, comprehensive, property damage and public liability. MPIC tells me that it is not possible to determine the profitability of each line of business and hence whether some profitable coverages are subsidizing unprofitable coverages. Nonetheless MPIC was able to provide rough figures on profitability which suggest that some cross-subsidy has occurred. The extent of the cross-subsidy is presented in Table 3.12, based on certain assumptions made by the corporation. MPIC interprets these data as showing that:

> ". . . collision and property damage indicated a profitable position. Accident benefits and public liability have been significantly unprofitable. Comprehensive has also been unprofitable but to a lesser degree."

In effect, MPIC is stating that collision and damage coverages are subsidizing bodily injury coverages.[13]

Although some cross-subsidy among the various motor vehicle insurance coverages is probably inevitable -- and may even fluctuate from year to year in extent and direction -- persistent cross-subsidy from one type of coverage to another should be avoided.

Recommendation No. 3.37: That persistent, material, cross-subsidies among automobile insurance coverages, if present, be eliminated gradually by the insurance year 1995.

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[13] In this regard, ICBC also estimates that its collision covers subsidize its public liability and bodily injury covers.

N. SEGREGATION OF PREMIUMS

Basic vehicle insurance in Manitoba covers five main contingencies -- accident benefits, collision, comprehensive, property damage and public liability. Premiums also support claims-related expenses (eg. the costs of the claims centres) and other administrative costs. As I discuss in Position Paper No. 1, no breakdown of how a premium is allocated to each of these coverages is provided to the policyholder.

Based on some rough calculations, such a breakdown would show:

- The 1987 annual cost of bodily injury claims to MPIC was approximately $90 million of which $15 million related to no-fault accident benefits. On a per-registered vehicle basis, the cost for bodily injury coverage is about $100, of which $25 is for accident benefits coverage and $75 is for public liability coverage. These claims are unlikely to depend on a vehicle's value and so would be roughly constant across rating groups.
- The annual cost of claims expenses and general administration was about $56 million in 1987 or $65 per registered vehicle. These expenses are also unlikely to depend significantly on vehicle value.
- The remainder of the premium can be attributed to collision, upset and comprehensive covers (i.e. all-perils).

For a vehicle worth a few hundred dollars, and so in a low rating group such as 0 where the basic premium is $172, the amount of the premium actually attributable to insuring against all-perils damage can be determined approximately as follows. The basic $172 premium is reduced by the $100 allocation for bodily injury and by the $65 allocation for expenses, leaving $5 to $10 for collision, upset and comprehensive coverage, or 2 - 5 percent of vehicle value. For a new vehicle worth $12,000, that is in rating group A, where the preferred use premium is about $396, the amount attributable to collision, upset and like covers is about $230, or 2 percent of vehicle value. The relative premiums for vehicle damage, roughly approximated by these calculations, do not appear markedly unfair. In my opinion, the corporation has been remiss in not providing an adequate breakdown of its premiums to its policyholders by type of coverage. In Position Paper No. 1, on accountability, I recommend that this be done.

O. MOTORCYCLES

Insurance for motorcycles differs in some important ways from insurance of other vehicles. Motorcycles are driven only six or seven months of the year in the Manitoba climate. Road-hazard coverages are predicated on this fact. On the other hand, MPIC comprehensive coverage (e.g. against vandalism) covers 12 months.

By way of introduction I note that, as Figure 3.10 shows, the use of motorcycles in Manitoba has been declining over the past five years; there are today about 13,000 registered and insured motorcycles, or under two percent of all vehicles. Claims incurred by bikes in 1987 amounted to less than 1.5 percent of the total.

A series of allegations were made with respect to inequities in MPIC's dealings with motorcycles, and these are dealt with individually below.

1. Number of Insurance Categories

Motorcycle insurance rates are based on engine size and model year alone while car insurance rates are based on a number of factors.[14]

Tables 3.13 and 3.14 contain, respectively, the premiums by rating classification and the number of motorcycles by classification in 1987. What these tables show is that about 7,400 of 13,000 registered motorcycles, or 56 percent, were assigned to one class requiring premiums of $483 in 1987. A further eleven percent were assigned to classes requiring premiums of $555 or $639. Thus, these three codes together accounted for two-thirds of the total population of motorcycles.

Based on these observations, I am of the opinion that the current rating system for motorcycles may not adequately reflect significant rating factors.

Recommendation No. 3.38: That, by December 31, 1989, MPIC analyze and publicly report upon the need for a more sophisticated rating system for motorcycles.

2. Loss Ratios

The uncorrected motorcycle loss ratios for the past five years, in Figure 3.11, appear to indicate that the loss ratios have remained above breakeven levels. The effect of restatement of the loss ratios to 1988 levels appears in Figure 3.12 and the loss ratios, restated, appear not to be excessive.

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[14] It is also true that a simplified rating system -- though not one quite as simple -- is in operation at ICBC.

Regarding the need for MPIC to adjust further the general premium level for motorcycles, Figures 3.13 and 3.14 lend support to the conclusions that:

- In 1987, the number of claims, although appearing high as a fraction of all registered bikes (3,500 of 13,000 -- 25 percent), is not out of line with the number of claims for all vehicles as a fraction of all registrations (250,000 out of 850,000 or 30 percent) and is relatively stable.
- The value of claims fluctuates annually. It rose to an exceptional peak level in 1986, but declined in 1987 to levels last experienced in 1983 and 1984.

From these data, one can infer that the premium level for motorcycles relative to the level for other vehicles is not significantly out of line.

Recommendation No. 3.39: That, effective not later than insurance year 1991, motorcycle premiums should be based on loss experiences.

3. Comprehensive Coverage

Unlike the owners of other vehicles, motorcyclists' comprehensive coverage (against fire, theft etc.) is not included in basic coverage. This coverage is, instead, optionally purchased on an extension basis for one year (rather than 6 months), as the perils can occur anytime. In my opinion, this is not a weakness as it offers an option to motorcyclists which they may select depending on their individual circumstances. However, it would be administratively simple to offer a combined road-hazard/comprehensive policy, on reasonable terms, for motorcyclists who wished it.

Recommendation No. 3.40: That, effective not later than insurance year 1990, MPIC offer motorcyclists a 12 month combination policy providing protection against road perils from April to November and comprehensive perils throughout the year including storage.

4. Passenger Hazard

While some motorcycles can only carry one person, many can transport both a driver and passenger. However, unlike the basic coverage on other vehicles, passenger hazard coverage is not part of basic coverage for motorcycles. This coverage must be obtained separately. If this is not done, a passenger's significant injury must be indemnified by the driver, which the driver may not have the resources to do.

In my opinion, the current situation is unacceptable. To rectify it will necessitate a small increase in premiums.

Recommendation No. 3.41: That, effective insurance year 1989, MPIC include with passenger hazard with the basic coverage for all motorcycles which have seating for more than one person.

5. Rebating Policy

Premiums for road-hazard insurance in Manitoba (as elsewhere in North America) and the related rebating policies are based on accepted seasonal driving habits for bikes. Driving in winter, if at all, is rare. The actual rebate schedule appears as Table 3.15. In very general terms, this rebate schedule is in keeping with insurance principles -- that is, there is no rebate for use after November, because few bikes are driven into the winter months.

The alternative to the current approach to rebating premiums would be to increase the rates significantly as though a motorcycle were constantly travelling in winter, and then make a larger rebate available in the fall. This would have the same net effect on an owner, but it would require an owner to make a larger initial premium payment (possibly double the current level which could well be a financial burden) and would be unduly complex to administer. I am of the opinion a change such as this is not justified.

Nonetheless, the steps by which the rebate declines each quarter are too steep. For example, a 70 percent rebate is available in May, but only a 40 percent rebate is obtainable in June. Some smoothing out of abrupt changes like this should be undertaken.

I understand also that if a bike is registered in December, for example, then 25 percent of the year's premium is required even though no rebate would be paid if that registration were immediately cancelled. The logic underlying the 25 percent premium, MPIC tells me, is that it is assumed that any one purchasing road-hazard insurance in winter must be planning to drive south. Also, a service fee is included implicitly in the premium. Fair enough. But if a cyclist's plans then change, the rebating policy must be responsive.

Passenger hazard may be purchased on an extension basis. However, the passenger hazard rebate schedule differs from that for other road hazard coverages. Specifically, once five months of coverage has passed, there is no rebate on the passenger hazard. These rebate differences should either be publicly justified or eliminated. If passenger hazard were included, as recommended above, in the basic coverage, then a suitable rebate arrangement would be instituted automatically.

Comprehensive coverage is offered on an extension basis for 12 months. Rebates are calculated according to a formula which takes into account a service fee and a 20 percent per month decline in earned premium. In other words, no rebate is provided after five months. I can not say whether this approach is exactly in keeping with insurance principles. It should be publicly justified in any event.

Recommendation No. 3.42: That, effective not later than insurance year 1990, MPIC revise the motorcycle rebate schedules to provide for actual prorating less only reasonable service charges.

6. Responsibility of Motorcyclists for Accidents

It was alleged to the commission that motorcyclists are not at fault in approximately two thirds of accidents. Calculations prepared by MPIC show that motorcyclists in Manitoba are actually not at fault in about 55 percent of accidents.

Between any two groups of vehicles, such as motorcycles and all other vehicles, the base division of responsibility is 50-50; thus, what is of importance is significant deviation from 50 percent. To put it another way, if all vehicles were equally prone to accidents, one would expect both groups of vehicles to cause 50 percent of the accidents.

There is a suggestion that because of their size and their flexibility in terms of rapid movements, motorcycles constitute a special hazard. While the motorcyclist may not be at fault, his or her presence on the road creates a hazard because negligently or otherwise, other drivers fail to see the bike as it emerges, for instance, from an intersection. While I suspect that there is truth in that suggestion, I would not base a conclusion upon a suspicion. Unless the suggestion can be substantiated, it should be the basis only for research.

Recommendation No. 3.43: That, by December 31, 1990, MPIC conduct or obtain research into the issue of causation in accidents involving motorcycles.

7. Good Driver Discounts

It was alleged that good driver discounts are not applied to motorcycle premiums, based on the criteria applied to other motor vehicle drivers. This is the case. I have discovered no justification for this distinction.

Recommendation No. 3.44: That, effective insurance year 1989, MPIC offer merit point discounts to motorcyclists on the same basis as discounts are awarded for other vehicles.

8. Time Payment

Motorcyclists are not offered a time payment option. This may be an administrative necessity for the corporation, because:

- Time payments are offered only to vehicles registering up to April 30 and most motorcycles register in May.

- Bikes are in effect insured for only about a six month period and, for other vehicles, MPIC requires the initial instalment to cover fully six months' insurance protection.

Significant annual premiums are required of motorcyclists. Nonetheless, it may be costly for the corporation to administer a separate custom-tailored scheme and motorcyclists would end up shouldering significantly higher premiums to offset these costs.

Recommendation No. 3.45: That, effective not later than insurance year 1990, MPIC develop time payment options for motorcyclists, calculate the associated costs, and consult with motorcyclists about whether a time payment plan is desired.

P. MOTORHOMES

It is alleged that motorhome premiums in Manitoba increased substantially between 1987 and 1988. This allegation appears to be true for higher priced motorhomes. Much of the reason for the steep premium increase was the change in the premium per $1,000 of vehicle value above the basic $15,000,[15] the so-called "maximum insured value". This premium increased 50 percent from $10 per $1,000 to $15 per $1,000 of excess value. Thus for motorhomes with high values, the effective overall increase was bound to be close to 50 percent.

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[15] For automobiles, the maximum insured value begins much higher, ie. at $40,000; above that, there is also a premium of $15 per $1,000 of value.

In order to determine whether the overall increase was justifiable, the commission examined loss ratios for motorhomes, not taking into account maximum insured vehicle insurance. The basic uncorrected loss ratios appear in Figure 3.15. They imply that losses experienced in 1986 and 1987 were somewhat above the breakeven level, but the pattern over five years is certainly ambiguous, as loss ratios in earlier years were significantly below the break-even point. The general weaknesses in MPIC's handling of loss ratios prevent me from making conclusive findings. It does appear that loss ratios no do not justify further disproportionate rate increases for these vehicles.

I now examine the justification for the sharp increase in maximum insured value premiums from $10 to $15. Figures provided by MPIC show loss ratios for this coverage are extremely low. The relatively low $15,000 motorhome value, beyond which excess coverage must be purchased, exacerbates this problem for motorhome owners. Despite cars having lower vehicle damage and replacement limits than motorhomes, the maximum insured value floor for cars is $40,000, that is 2.6 times that for motorhomes. Based on these observations, I believe that the additional premium for extra insured value coverage has not been justified.

MPIC tells me that some motorhome owners use their vehicles for other than occasional recreational purposes. The occasional use assumption was one of the factors underlying the rating system. If alternative uses are being made of motorhomes -- although I received no explicit evidence in this regard -- thereby driving rates up for occasional users, then MPIC should consider revising the rating structure to reflect different uses and differential rates.

Recommendation No. 3.46: That, effective insurance year 1989, motorhome premiums be restructured so as to be based more exactly upon experience with motorhome losses.

VI. SHOULD ALL-PERILS COVERAGE BE MANDATORY?

The commission received a significant number of submissions arguing that all-perils, especially collision, coverage should be voluntary, primarily because its absence does not hurt third parties. In B.C. it is optional, although two thirds of drivers agree to take it.

The main benefit in obliging all individuals to purchase collision and comprehensive insurance is that MPIC consequently enjoys certain economies of scale. These economies may be necessary if a relatively small insurance market like Manitoba is to be serviced adequately. If collision coverage were made optional and 40 percent of Manitobans elected not to pay for this cover, then MPIC would likely be obliged to close claims centres in Winnipeg and throughout Manitoba and lay off a significant fraction of the staff complement. In other words, the geographically-dispersed service system maintained today might well no longer be justified economically. This could seriously impair services available to smaller communities. Also, a reduction in the economies of scale would increase premiums for those who did choose all-perils coverage.

Other contentions are:

- It may be that those who are at less risk of an accident would not purchase coverage. In effect those who remain in the insurance pool would be the higher risks and their premiums would rise. In the insurance business, this is known as "anti-selection" -- that is bad risks opt in and good risks opt out. Because of the seeming cross-subsidies between collision and other lines of insurance, this anti-selection will have an upward effect on the premiums that all motorists would pay.

It is also argued that, on the other hand, good drivers tend to be cautious individuals and will purchase the optional insurance. Thus, the "anti-selection" effect would work the other way, i.e. be "pro-selection". If this were the effect, then the premiums for those remaining in the pool would decline marginally.

- It is argued that if collision coverage were voluntary, more lawsuits would result because uninsured motorists with damaged vehicles, especially of the most expensive types, would actively contest findings of fault through legal channels. This would add to MPIC's claims expenses and so to overall premiums. Avoidance of these costs was one of the main goals at MPIC's inception.

- It is suggested that, if the court becomes involved, cars may not be repaired until the court renders judgement. This could mean that otherwise repairable cars are left in an undriveable condition for an extended period of time, while blame is sorted out. It is said that appeals could take years.

- It is alleged that uninsured cars involved in accidents would be repaired poorly, if at all, and might pose a safety hazard. It is also noted that the removal of mandatory collision coverage would seriously effect the vehicle repair industry: fewer vehicles would be repaired and those that were repaired for an uninsured owner would not be repaired in all cases to today's level of quality.

- Compulsory coverage is said to be a restriction on freedom of choice. In particular, it obliges owners of older vehicles to insure something of little value to them.

The overall question about mandatory all-perils coverage is really unanswerable, because presently there is no way for Manitobans to know how much they are paying for all-perils coverage. I suspect that if the owner of an old car knew that the premium for all-perils coverage is negligible, there would be few complaints.

A partial solution to this question may be for MPIC to offer higher optional deductibles at lower premiums. The current $350 deductible is too low because:

- Many vehicle owners can afford and would risk a higher deductible when their vehicles are damaged through their fault.
- The deductible provides only marginal, if any benefits, to the owners of older vehicles and, even then, only at a disproportionately high claims expense and administrative cost [16] for the corporation.

I therefore propose that the corporation, in addition to deductible buy-downs, offer deductible "sell-up" options whereby a policyholder would pay a reduced premium. The premium reduction would correspond to the corporation's expected savings in providing less coverage or no coverage for vehicle losses.

If, as I have recommended elsewhere, the corporation develops both experience-based rates and the capacity to show policyholders how much premium is needed for different types of coverage, then it should be straightforward for MPIC to calculate the extent to which premiums should be reduced if coverage is lowered or eliminated. I recommend this approach earlier in this position paper.

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[16] Processing a claim costs about $100, MPIC tells me.

I would like to comment lastly upon the possibility that collision coverage be not only optional but available through other insurers. This is done in B.C., although the competition for the collision market is more theoretical than real, as ICBC dominates 98 percent of the market. More competition could require MPIC to be more responsive to its policyholders' needs. On the other hand, court cases could be extended and other deficiencies of the pre-Autopac system could re-emerge.

While the arguments for and against optional all-perils coverage do not persuade me to the point of absolute certainty that retention of mandatory coverage is the only course, I reason that the present system is a good system except as it adversely effects motorists with vehicles of low value. If MPIC were to design and offer a "sell-up" option, the owners of older vehicles would be relieved of the burden of paying for coverage from which they expect little value.

Recommendation No. 3.47: That all-perils coverage remain compulsory for Manitobans, but that MPIC design and offer "sell-up" options in relation to all-perils coverage.

VII. ROLE OF TECHNOLOGY

> "Did not those insurance increases start with the advent of front wheel drive cars and light trucks, a few years ago? Most of [these] have back and front bumpers as part of the body ensemble . . . ." -- Jack Wilde.

> "Changing automobile construction and design is one of the major factors influencing the rising cost of repairs. Manufacturers are using more plastic and vinyl parts which often require complete replacement when damaged in an accident. The growing popularity of front wheel drive vehicles has also caused claim costs to increase, as these vehicles tend to be more expensive to repair when they are involved in a front end collision. At the same time, the price of new vehicles and accessory equipment is rising steadily leading to higher replacement costs." -- MPIC, Annual Report, 1987, page 3.

Although it appears to be conventional wisdom in the insurance industry that changing manufacturing processes for cars are driving up the costs of repairs, it has been difficult for the commission to obtain facts rather than opinions in this regard. Coopers & Lybrand, at the direction of the commission, requested MPIC to provide data to support the corporation's statement, in the annual report for 1987, that changes in vehicle design and construction were increasing the corporations losses. MPIC could supply no such information.

While evidence respecting the role of technology is inconclusive, this role may still be important. Changes in vehicle design and construction may be causing MPIC's claims costs to rise. Even if they are not, technological change is imposing new demands upon MPIC's estimation process and on its repair businesses.

Therefore, in refining its classification and reporting of losses, I believe MPIC should be able to compare its experience in repairing vehicles of newer designs or construction to its experience in insuring other vehicles. In the meantime, the corporation should refrain from attributing changes in its loss experience to phenomena reported by other insurance companies unless it has evidence that supports such statements.

Recommendation No. 3.48: That, effective not later than December 31, 1989, MPIC develop the means to assess the impact of changing automotive technology upon its loss experience and upon requirements to repair vehicles, including the estimating of damage and controlling of subsequent repair work.

Recommendation No. 3.49: That effective immediately, MPIC in its annual reports and other publications, compare trends in its losses to those of other insurance organizations only when it can do so factually in terms of its own experience.

VIII SUMMARY OF MAIN CONCLUSIONS:

Insurance is a compact whereby an insured pays a certain small amount, the premium, to an insurer. In return uncertain large losses, or risks, are borne by the insurer. Fixing a fair premium, which compensates for this transfer of risk, is a core activity of an insurance company. Premiums charged by MPIC, like those of any insurer, must:

- Reflect the actuarially-determined risks of any particular business.
- Be structured to be true to MPIC's general purposes and to raise sufficient overall revenue to maintain MPIC's financial health.

Risks can be assessed through the informed judgement of underwriters, through observation of an individual's pattern of loss or through the grouping of like risks, a method known as "classification". MPIC relies upon a classification system for basic Autopac, adjusted for surcharges reflecting an owner's driving record.

The unheralded sharp increases in overall premiums for 1988 prompted a public furor which led to the establishment of this commission. The commission's public hearings allowed MPIC's policyholders to voice a catalogue of criticisms of specific weaknesses in the rating systems.

The commission augmented these impressions through a research program relying upon the advice of some of Canada's largest consulting groups. MPIC officials were generally cooperative and frank.

The commission examined a number of questions of increasing specificity:

- Has MPIC's ratemaking been forthright and responsive?

- How should compulsory vehicle insurance be financed? That is, what proportion of the total premiums ought to derive from vehicle premiums, drivers' licence fees, surcharges, gas taxes and government subsidies. Is MPIC enjoying hidden subsidies?

- How did MPIC make rates from 1983 to 1988? Is ratemaking adequately and sufficiently conducted? Did government interfere?

- Are the many specific concerns of the policyholders valid or groundless?

- Should all-perils coverages be compulsory or optional?

- Is vehicle manufacturing technology inflating repair costs and, so, premiums?

The answers to these questions are summarized in the following conclusions:

- Autopac premiums overall are among the lowest in Canada and have been designed since Autopac's inception to be more "level" than in private schemes. "Level" means that the rate differentials between poorer and better risks are less marked than elsewhere: surcharges are less punitive, discounts less generous.

- Autopac makes rates notably different from its private sector counterparts in five important areas:

- MPIC assigns passenger cars to rating groups according simply to base factory price rather than according to price, history of repair costs and incidence of accidents.

- MPIC avoids classifying according to driver age, gender or marital status. Though not in keeping with industry practice in some places, Autopac's approach is non-discriminatory and appropriate.

- MPIC provides discounts and imposes surcharges to a lesser degree than private insurers.

- MPIC employs merit/demerit points to rate drivers convicted of moving offenses, maintained by the Manitoba department of highways, a practice not readily available to private insurers.

- Collision coverage is mandatory, rather than optional.

o Passenger car insurance claims and premiums have been escalating in North America. Although the reasons remain uncertain, analysts point to higher liability settlements, and to rising repair costs due to more sophisticated vehicles.

o Vehicle insurance should be financed largely through premiums reflecting a vehicle's characteristics and how it is driven (use, value, territory). There is great body of vehicle insurance experience and related data available in North America which supports sophisticated ratemaking of vehicles. However, a portion of the premium burden in Manitoba should continue to be shouldered by drivers and related to one specific Autopac coverage, namely no-fault accident benefits.

  - The corporation lacks a formal internal process for sound ratemaking.

- Autopac is taking advantage of its monopoly to overprice some extension coverages (which exist in, at best, a quasi-competitive marketplace dominated by MPIC because of its monopoly in basic insurance).

- The rating system for passenger vehicles -- whereby new cars are assigned to a rating group on the basis of factory price -- is greatly flawed. It must be restructured completely.

- The process of periodically vintaging cars down to lower rating groups with lower premiums is carried out in the absence of written guidelines and does not reflect a car's value.

- Autopac extends special premiums to antique cars, older than 30 years, but not "collector" cars, 15 to 30 years old. Autopac should investigate offering this service.

- Autopac should proceed with its plans to make new car replacement insurance available as an option.

- Premiums for farm trucks and, to a lesser degree farm cars, appear to be too low relative to the five year pattern of losses. The premiums should be increased in keeping with insurance principles.

- Premiums for all purpose use appear to be low relative to the five year pattern of losses. These premiums should be increased in keeping with insurance principles. The statutory definition of the all purpose use has a number of drawbacks which should be rectified.

- Premiums for students are fixed under the preferred use classification, unlike those for their teachers which are based on all-purpose use. Premiums for students should revert to levels commensurate with all purpose use.

- Autopac should develop a special premium for commuters into Winnipeg, who otherwise pay premiums not associated with their exposure to risk.

- Autopac should discontinue the lease category. Leased vehicles should be assigned to whichever of the remaining uses apply.

- The MPIC Act should be amended to clarify that basic insurance for rental vehicles is to be exclusively provided by Autopac at scheduled rates.

- Autopac should permit agents to sell temporary demonstration for sale registrations.

- Autopac's fleet rebate/surcharge system may be improved through the addition of fleet-specific, experienced-based ratings.

- Autopac's premium structure may discriminate against public service vehicles (which carry other person's cargoes) in contrast to heavy commercial trucks (which carry the owner's own cargo).

- Autopac has been inflexible until this year in responding to trucker's representations concerning changes to the available all-perils coverage, namely in the available levels of deductibles and third party liability coverage. For a monopoly, this is unacceptable. There have been signs over the past few months that this climate of intransigence is being replaced by an atmosphere of negotiation.

- Autopac should offer, as an option, deductibles above the basic $350. This would allow vehicle owners to forego, in effect, all-perils coverage for low value vehicles.
- Autopac should include underinsured motorist coverage in the basic plan at the same level as the third party liability level selected by the policyholder. The increase to basic premiums would be very low.
- Autopac should calculate and gradually eliminate the persistent cross subsidies apparent among its lines of coverage.
- Autopac should re-examine its basic motorcycle rating system.
- Autopac should retain optional comprehensive coverage for motorcycles.
- Autopac's rebating policies for motorcyclists, while in part justifiable, suffer from a number of problems related to the precise rebating schedule used and the rebating for comprehensive and passenger hazard coverages.
- Third party liability coverage does not automatically cover the motorcycle owner for losses sustained by his or her passenger.
- Motorcycles cause about 45 percent of the accidents in which they are involved.
- Motorcyclists were denied good driver discounts in 1988.

- Motorcyclists are offered no time payment system; but to do so may be costly.

- Autopac premiums for motorhomes appear to be unjustifiably high and, for higher priced motorhomes, rose by nearly 50 percent in 1988. An unheralded increase of this magnitude is unacceptable in any one year.

- Collision coverage should remain mandatory for the time being, because otherwise Autopac might lose its economies of scale which permit it to offer service throughout Manitoba. However, as noted above, deductibles at fixed gradations above $350, should be allowed as an option.

- Technological innovations in automotive manufacturing are causing unknown, but possibly profound, effects on vehicle repair costs. Autopac should cultivate the means to monitor these developments for Manitoba, as MPIC today can do no more than point to experiences.

MPIC offer maximum discounts to drivers without any at-fault accidents over five consecutive years and reduce the discount by 50 percent, in the event of the first accident in such a period. The penalty for a single accident should be such as to reduce the discount by half, in the event of the first accident in such a period. (Page 22)

Recommendation No. 3.04: That, as an interim measure, beginning with insurance year 1989, MPIC impose a $50 charge for a first accident, and, furthermore, increase the charges for multiple accidents by $50. (Page 23)

Recommendation No. 3.05: That the merit/demerit point system be restructured thoroughly or replaced by a superior driver rating method, effective not later than insurance year 1990, in order to introduce more equity and simplicity. (Page 31)

Recommendation No. 3.06: That, effective insurance year 1989, MPIC charge a graduated penalty to drivers with one to five demerit points, allow out-of-province merit points to be taken into account and, for merit points affecting vehicle premiums, establish a fairer qualifying policy. (Page 31)

Recommendation No. 3.07: That no gas tax be imposed for the purpose of subsidizing vehicle insurance plans. (Page 35)

Recommendation No. 3.08: That MPIC enter into a joint study with the Manitoba health services commission in order to establish by December 31, 1989 the benefits and costs to both organizations of initiating a simplified chargeback mechanism. (Page 37)

Recommendation No. 3.09: That the Manitoba government empower an authority, independent of MPIC and the Manitoba department of highways, to conduct a study of the cost-sharing arrangements between MPIC and the department, and to report by December 31, 1989. (Page 38)

Recommendation No. 3.10: That the vehicle inspection and driver education programs, transferred from the Manitoba department of highways to MPIC in 1986, be returned to the department in 1989; that other transferred programs be evaluated for relevance to the department's and MPIC's objectives by December 31, 1989, and that MPIC pursue aggressively the economical expansion of its own safety programs. (Page 41)

Recommendation No. 3.11: That management and the board of directors be granted the authority publicly by government to finalize rates, subject only to review by the Public Utilities Board. (Page 56)

Recommendation No. 3.12: That, effective not later than insurance year 1991, MPIC develop an actuarially-sound and statistically-driven ratemaking system. (Page 56)

Recommendation No. 3.13: That, effective not later than insurance year 1990, MPIC management assign rate-making responsibility to a new senior management position with such assistance, including actuarial assistance, as may be required for managing the internal ratemaking system. (Page 56)

Recommendation No. 3.14: That, effective not later than insurance year 1990, premiums for extension coverage be set in accordance with risks and costs. (Page 58)

Recommendation No. 3.15: That, effective not later than insurance year 1991, MPIC revise thoroughly the rating group system to reflect loss experience. (Page 61)

Recommendation No. 3.16: That the original factory base price criterion for assignment of a passenger car to a rating group be eliminated in not more than two years. (Page 61)

Recommendation No. 3.17: That the special rating of vans and station wagons, if unjustifiable, be stopped effective insurance year 1989. (Page 62)

Recommendation No. 3.18: That revisions be made to MPIC's vintaging or downgrading policy, in conjunction with the revamping of the rating groups, to reflect more accurately MPIC's risks; and that, effective not later than insurance year 1990, a written vintaging policy be prepared which takes into account the value of total losses, and the cost of repairing cars, less acknowledged depreciation. (Page 64)

Recommendation No. 3.19: That, effective not later than insurance year 1990, MPIC institute special coverage for cars over 15 years old used solely for display purposes. (Page 66)

Recommendation No. 3.20: That, effective not later than insurance year 1990, the rating of farm trucks be made relatively consistent with the ratings for other vehicles; that is, premiums should depend on the loss experiences for these trucks. (Page 67)

Recommendation No. 3.21: That, effective not later than insurance year 1990, the definition of a "farm car" in The MPIC Act and regulations be amended so as to exclude vehicle use for non-farm purposes and that rates for farm cars be brought into line with the loss experiences for these cars. (Page 68)

Recommendation No. 3.22: That, effective not later than insurance year 1990, premiums for all purpose use be modified to reflect loss experiences for this use. (Page 68)

Recommendation No. 3.23: That, effective not later than insurance year 1990, The MPIC Act and regulations be amended so as to enable MPIC to control more carefully the policyholders to whom the preferred classification is to apply. (Page 69)

Recommendation No. 3.24: That, effective not later than insurance year 1990, a student who drives a car to school be charged all purpose rates. (Page 70)

Recommendation No. 3.25: That, effective not later than insurance year 1990, MPIC develop a proposal to charge increased rates for commuters, either by changing the criteria used to assign vehicles to territories or by means of a new use code specifically for policyholders who work or attend an educational institution in a territory with higher rates than their territory of residence. (Page 70)

Recommendation No. 3.26: That, effective not later than insurance year 1989, the "leased" use be discontinued by MPIC and that leased passenger cars be classified for insurance purposes according to the use to which they are put. (Page 71)

Recommendation No. 3.27: That, effective not later than insurance year 1991, The MPIC Act and regulations be amended so as to clarify that MPIC alone may provide, lawfully, basic insurance coverage on rental vehicles at scheduled rates. (Page 73)

Recommendation No. 3.28: That, effective insurance year 1989, the use "demonstration for sale" be made available through Autopac agents. (Page 74)

Recommendation No. 3.29: That, not later than December 31, 1989, MPIC complete a study of fleet ratemaking to provide for more extensive individual underwriting of fleets and for the setting of rates, possibly supported by a system of rebates and surcharges, that reflect MPIC's loss experience with specific fleets. (Page 75)

Recommendation No. 3.30: That, effective insurance year 1989, MPIC review its ratemaking for heavy commercial trucks and public service vehicles and either publicly justify the rating differences or eliminate them. (Page 76)

Recommendation No. 3.31: That, effective not later than insurance year 1991, trucking rates be experience-based, and that, effective not later than insurance year 1989, offered coverages be sensitive to the requirements of the trucking market. (Page 77)

Recommendation No. 3.32: That, before December 31, 1989, MPIC report on a thorough examination of both the geographical dispersion of Autopac losses and the opportunities to strengthen the homogeneity of loss experience in the territories used for Autopac ratemaking. (Page 78)

Recommendation No. 3.33: That, effective insurance year 1989, increases in deductibles be introduced regularly and gradually and parallel increases in vehicle repairs and/or the cost of living; and that deductibles only be increased in reasonable increments (perhaps $25). (Page 80)

Recommendation No. 3.34: That, effective not later than insurance year 1991, MPIC base the premium for deductible buy-down on actual loss experience for each rating group. (Page 81)

Recommendation No. 3.35: That, effective insurance year 1989, deductibles higher than $350, with a maximum of at least $1,000, be offered as options for passenger cars, and that premiums be reduced commensurately. (Page 81)

Recommendation No. 3.36: That, effective insurance year 1989, as part of the basic Autopac coverage, MPIC provide automatic protection for claims against underinsured motorists up to the limit of third party liability purchased. (Page 82)

Recommendation No. 3.37: That persistent, material, cross-subsidies among automobile insurance coverages, if present, be eliminated gradually by the insurance year 1995. (Page 83)

Recommendation No. 3.38: That, by December 31, 1989, MPIC analyze and publicly report upon the need for a more sophisticated rating system for motorcycles. (Page 86)

Recommendation No. 3.39: That, effective not later than insurance year 1991, motorcycle premiums should be based on loss experience. (Page 87)

Recommendation No. 3.40: That, effective not later than insurance year 1990, MPIC offer motorcyclists a 12 month combination policy providing protection against road perils from April to November and comprehensive perils throughout the year including storage. (Page 88)

Recommendation No. 3.41: That, effective insurance year 1989, MPIC include passenger hazard with the basic coverage for all motorcycles which have seating for more than one person. (Page 88)

Recommendation No. 3.42: That, effective not later than insurance year 1990, MPIC revise the motorcycle rebate schedules to provide for actual prorating less only reasonable service charges. (Page 90)

Recommendation No. 3.43: That, by December 31, 1990, MPIC conduct or obtain research into the issue of causation in accidents involving motorcycles. (Page 91)

Recommendation No. 3.44: That, effective insurance year 1989, MPIC offer merit point discounts to motorcyclists on the same basis as discounts are awarded for other vehicles. (Page 91)

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Recommendation No. 3.47: That all-perils coverage remain compulsory for Manitobans, but that MPIC design and offer a "sell-up" option in relation to all-perils coverage. (Page 97)

Recommendation No. 3.48: That, effective not later than December 31, 1989, MPIC develop the means to assess the impact of changing automotive technology upon its loss experience and upon requirements to repair vehicles, including the estimating of damage and controlling of subsequent repair work. (Page 98)

Recommendation No. 3.49: That effective immediately, MPIC in its annual reports and other publications, compare trends in its losses to those of other insurance organizations only when it can do so factually in terms of its own experience. (Page 98)

TABLE 3.1

AUTOPAC REVIEW COMMISSION

MPIC Rates in Effect March, 1987

Coverage: Liability $1,000,000.00 inclusive
Collision $50.00 deductible (B.C. $100.00 deductible)
Comprehensive $50.00 deductible

Accident Benefits

Three Years Accident Free

Underage 25 are Driven for Pleasure

	1983 Volkswagen Rabbit LS						1983 Dodge Diplomat Sedan					
Location	Pleasure Not Driven To Work	Pleasure Driven To Work	Business	Under Age 25 Female (24)	Under Age 25 Male (24)	Under Age 25 Male (18)	Pleasure Not Driven To Work	Pleasure Driven To Work	Business	Under Age 25 Female(24)	Under Age 25 Male (24)	Under Age 25 Male (18)
*Dauphin	346	395	531	346	346	346	397	457	621	397	397	397
*Winnipeg	392	493	597	392	392	392	455	573	697	455	455	455
Vancouver	523	652	729	523	523	523	523	652	729	523	523	523
Regina	487	487	520	487	487	487	457	457	490	457	457	457
Toronto	756	850	1,020	1,094	1,522	3,494	694	782	938	1,086	1,424	3,204
Ottawa	526	688	818	1,100	1,422	3,160	564	628	748	994	1,288	2,372
Kenora	844	894	1,144	1,320	1,906	4,420	762	806	1,030	1,117	1,702	3,906
Calgary	871	965	1,098	1,163	1,422	2,792	754	839	954	996	1,231	2,415
Fort McMurray	917	952	1,101	1,277	1,611	3,317	777	808	938	1,076	1,368	2,816
Saint John or Moncton (New Brunswick)	631	686	781	779	1,147	2,375	576	626	713	708	1,051	2,191

TABLE 3.2

AUTOPAC REVIEW COMMISSION

Demerit Points for Selected Offences Under the H.T.A.

Offence		Demerit Points
S155(s)	Failure to exchange particulars or	eight
	to provide information to a peace officer	eight
155(3)	Advise owner of damage to unattended vehicle	six
S170(1)	Misuse of driver's licence	six
S188	Careless driving	six
S189	Racing	eight
S217(1)a	Littering	four
S222(2)	Obstructing traffic	four
S224(1)	Making a false statement	four
Other offenses		four

TABLE 3.3

AUTOPAC REVIEW COMMISSION

MPIC's Demerit Point System

Demerit Points	Premium Assessment	Demerit Points	Premium Assessment
0 - 5	NIL	14	$450
6	$150	15	$500
7	$175	16	$575
8	$200	17	$650
9	$225	18	$725
10	$250	19	$800
11	$300	20	$875
12	$350	21	$975
13	$400	22 & Over	$999

TABLE 3.4

AUTOPAC REVIEW COMMISSION

MPIC: Approved Safety Budget

1980/81 - 1987/88

	Safety	Driver Education Bicycle/Snowmobile Safety Vehicle Inspection
1980/81	$ 246,600	-
1981/82	231,957	-
1982/83	445,757	-
1983/84	840,137	-
1984/85	1,432,533	-
1985/86	987,238	-
1986/87	473,792	967,762
1987/88	218,699	2,368,817

TABLE 3.5

AUTOPAC REVIEW COMMISSION

Analysis of Investment Yields

1983 - 1986

	1986	1985	1984	1983	Average
Adjusted Department of Insurance Formula					
MPIC	13.4%	13.7%	13.4%	13.1%	13.4%
ICBC	12.5	13.6	13.3	13.3	13.2
SGI	13.4	13.7	13.4	13.0	13.4
Industry - Canadian	12.6	13.3	11.6	12.9	12.6
Effective Yield					
MPIC	12.1	12.7	12.1	11.4	12.1

TABLE 3.6A

AUTOPAC REVIEW COMMISSION

MPIC Summary of Budgeted and Actual Operating Results

For Years 1982 to 1987

($ 000s)

	Budgeted Results $	Actual Results $	Catas. $	Reserves for Cont. $	Rate Stab $	Total Reserves $
Opening balance			10,000	2,800	5,451	18,251
October 31, 1982		15,105	22,000	3,550	7,806	33,356
October 31, 1983	595	9,743	28,500	5,000	9,599	43,099
October 31, 1984	2,591	18,845	38,500	6,000	17,444	61,944
October 31, 1985	16,700	9,325	42,000	6,000	23,269	71,269
October 31, 1986	(902)	(18,773)	42,000	700	9,796	52,496
October 31, 1987	(22,178)	(61,576)	0	0	0	(9,080)

TABLE 3.6B

AUTOPAC REVIEW COMMISSION
MPIC Rate Increases
1985 - 1988

Validation Year	MPIC Management Recommended Rate Increase	Cabinet Approved Rate Increase
1985	5.0%	-2.0%
1986	5.0%	0.0%
1987	8.5%	8.4%
1988	35.0%	18.0%

TABLE 3.7 AUTOPAC REVIEW COMMISSION

MPIC Assignment to Rating Groups by New Car Value

(Thousands)

Rating Group	Factory Base Price ($000's)
0	Not used for new cars; cars are vintaged into these groups
1	
2	
3	
4	
5	up to 4.00
6	$4 - 4.99
7	$5 - 5.99
8	$6 - 7.99
9	$8 - 9.99
A	$10 - 14.99
B	$15 - 24.99
C	$25 - 34.99
D	$35 - 40.00

TABLE 3.8

AUTOPAC REVIEW COMMISSION

MPIC Premiums for $100 & $150 Buydown of Deductibles, 1988, Territory 1, All-purpose

	Rating Group													
	0	1	2	3	4	5	6	7	8	9	A	B	C	D
$100 Buydown to $250	26	29	35	42	46	53	59	65	72	72	72	72	72	72
$200 Buydown to $150	55	60	69	78	87	104	116	126	140	140	140	140	140	140

TABLE 3.9

AUTOPAC REVIEW COMMISSION

Comparison of Car Rental Deductible By-Downs

Car Rental Company	By-Down Coverage	Daily Cost
Avis	From $5000 to $100	$11.95
Hertz	From $1500 to $0	$ 9.00

TABLE 3.10

AUTOPAC REVIEW COMMISSION

MPIC: Fleet Surcharges and Rebates, 1988

Surcharges

If the loss experience of the fleet is	The surcharge will be	If the loss experience of the fleet is	The surcharge will be
70-79%	Nil	105%	26%
80%	1%	106%	27%
81%	2%	107%	28%
82%	3%	108%	29%
83%	4%	109%	30%
84%	5%	110%	31%
85%	6%	111%	32%
86%	7%	112%	33%
87%	8%	113%	34%
88%	9%	114%	35%
89%	10%	115%	36%
90%	11%	116%	37%
91%	12%	117%	38%
92%	13%	118%	39%
93%	14%	119%	40%
94%	15%	120%	41%
95%	16%	121%	42%
96%	17%	122%	43%
97%	18%	123%	44%
98%	19%	124%	45%
99%	20%	125%	46%
100%	21%	126%	47%
101%	22%	127%	48%
102%	23%	128%	49%
103%	24%	129%	50%
104%	25%		

Rebates

If the loss experience of the fleet is	the refund will be	If the loss of the fleet is	the refund will be
69%	1%	56%	14%
68%	2%	55%	15%
67%	3%	54%	16%
66%	4%	53%	17%
65%	5%	52%	18%
64%	6%	51%	19%
63%	7%	50%	20%
62%	8%	49%	21%
61%	9%	48%	22%
60%	10%	47%	23%
59%	11%	46%	24%
58%	12%	45%	25%
57%	13%		

TABLE 3.11

AUTOPAC REVIEW COMMISSION

Annual Registration Fees and Insurance Premiums for Trucks by Type of Registration, 1988

	Farm Truck	Truck	Commercial Truck	Public Service Vehicle
Registration (1)	$ 296	$540	$1950	$1950
Insurance (1)	$ 271	$1117 (2)	$1117 (5)	$2646 (3)

NOTES:
1. Truck is the top rating group (new truck of 36,501 kilograms or more in Territory 1).
2. Insurance use 99 "other" (over 3,630 kilograms).
3. Insurance use 34 "trucking" over a radius of 161 road kilometers.

TABLE 3.12

AUTOPAC REVIEW COMMISSION

Discrepancies in Basic Earned Premiums Relative to Incurred Losses

By Major Cover Area, 1980/1 to 1986/7

Fiscal Year	Accident Benefits	Collision	Compre-Hensive	Property Damage	Public Liability
1980/1	0	0	0	0	0
1981/2	-1446	1705	398	869	-1526
1982/3	-3306	5334	- 622	1817	-2823
1983/4	- 931	4760	-2675	2716	-3870
1984/5	+1586	3990	- 752	3827	-8651
1985/6	-1163	+6959	-3018	5641	-8414
1986/7	-1929	13586	-2332	8382	-17707

TABLE 3.13

AUTOPAC REVIEW COMMISSION

MPIC Premiums for Motorcycles by Age and Engine Size, 1987

Displacement	**Year**					
In C.C.'S	Pre 1965	1966-69	1970-76	1977-81	1982-84	1985-88
1-49	$180	$180	$196	$280	$328	$328
50-100	$180	$196	$280	$328	$342	$342
101-250	$180	$196	$328	$342	$423	$423
251-500	$280	$328	$342	$423	$483	$483
501-750	$328	$342	$423	$483	$483	$555
OVER 750	$342	$423	$483	$483	$483	$639

NOTE: This figure does not include the $18 registration fee.

TABLE 3.14

AUTOPAC REVIEW COMMISSION

MPIC Number of Insured Motorcycles by Age and Engine Size, 1987

	Prior to 73	73-76	77-81	82-84	85-88	Total
1-49	40	117	191	98	36	482
50-100	20	17	45	128	41	251
101-250	44	112	272	173	201	802
251-500	124	350	845	752	247	2,318
501-750	277	685	1,529	1,943	633	5,067
750+	172	339	1,435	1,475	724	4,145
						13,065

TABLE 3.15

AUTOPAC REVIEW COMMISSION

MPIC Motorcycle Rebate Schedule, 1987

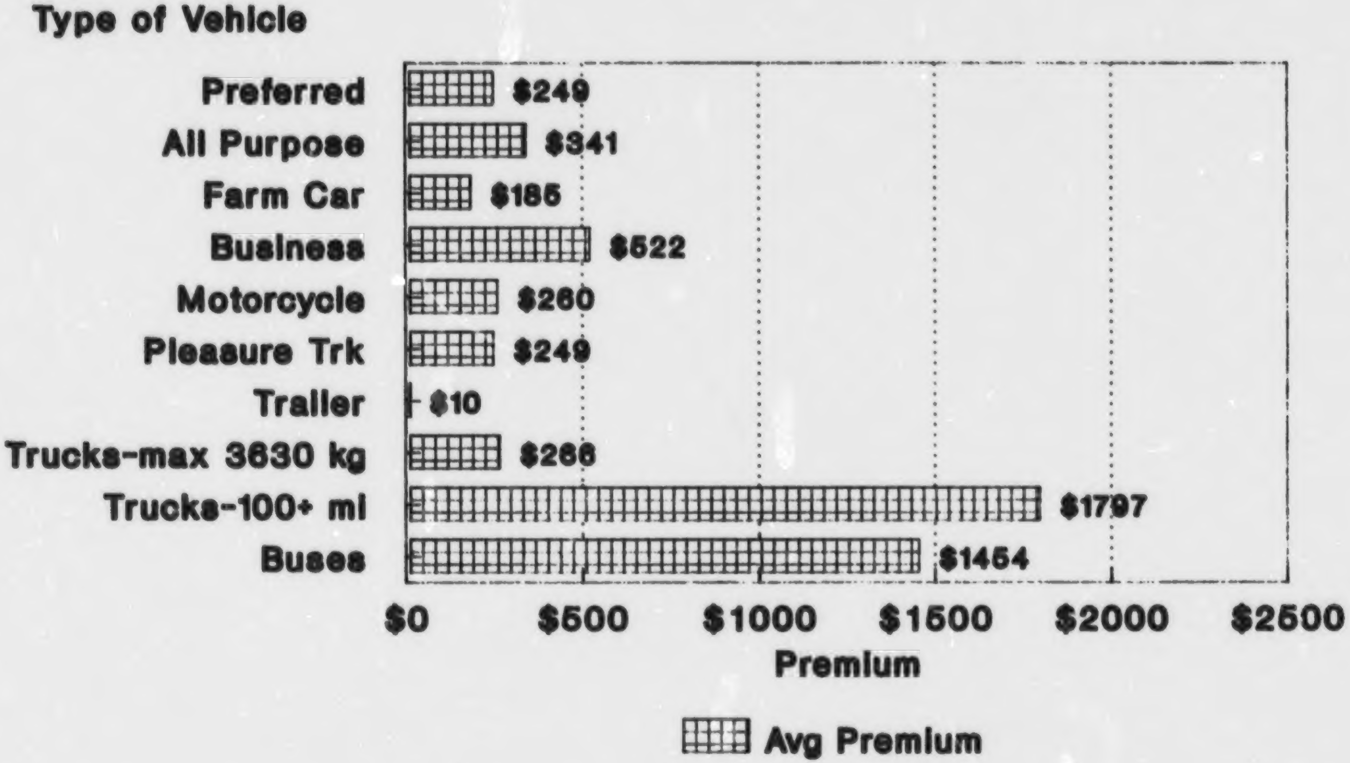
When an owner's certificate issued in respect of a motorcycle, a moped or a mobility vehicle is cancelled or surrendered for cancellation, the refund is as follows:

Month of Surrender	Refund
March, April or May	70% of annual premium payable
June, July or August	40% of annual premium payable
September, October or November	15% of annual premium payable
December, January or February	No refund

FIGURE 3.1

AUTOPAC REVIEW COMMISSION

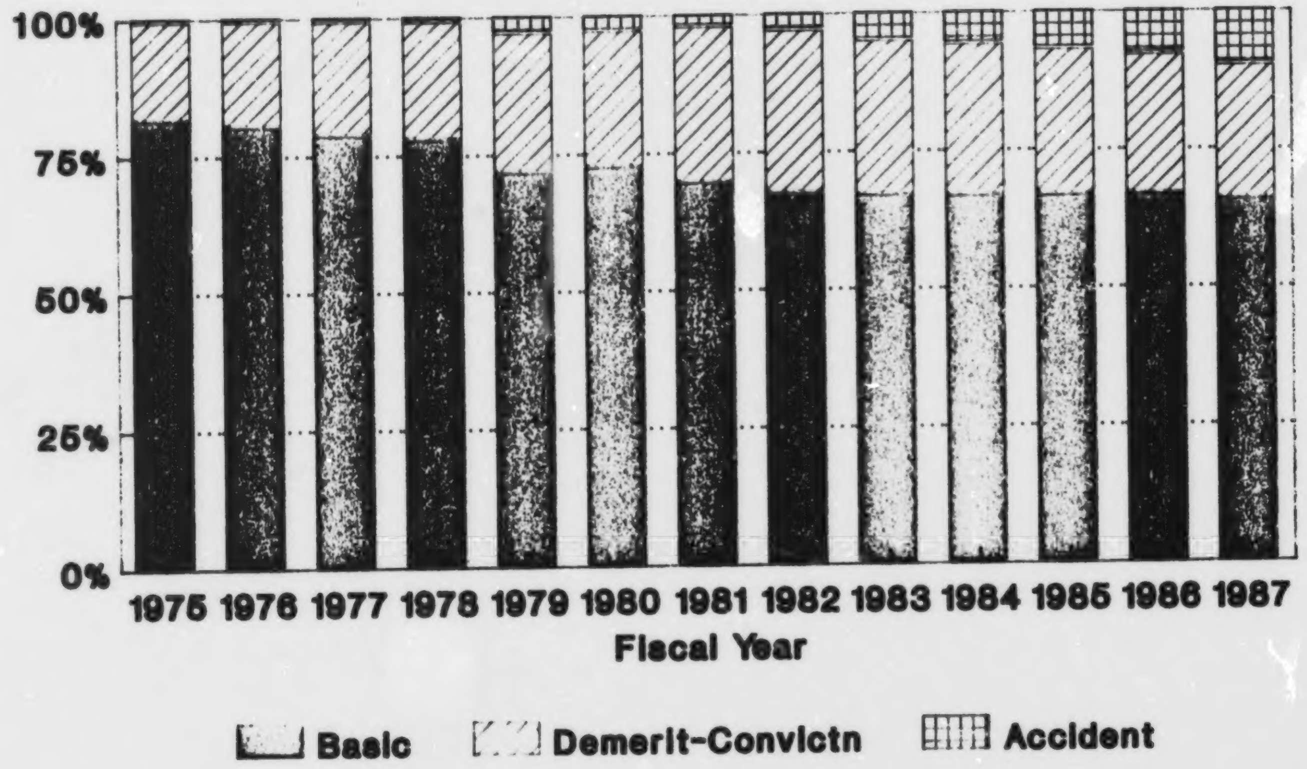
Average Premiums
Selected Uses of Vehicle, 1987



Source: MPIC A13H780-B1-2

FIGURE 3.2

AUTOPAC REVIEW COMMISSION
MPIC Driver Premiums(Basic & Surcharges)
Surcharges for Convictions & Accidents

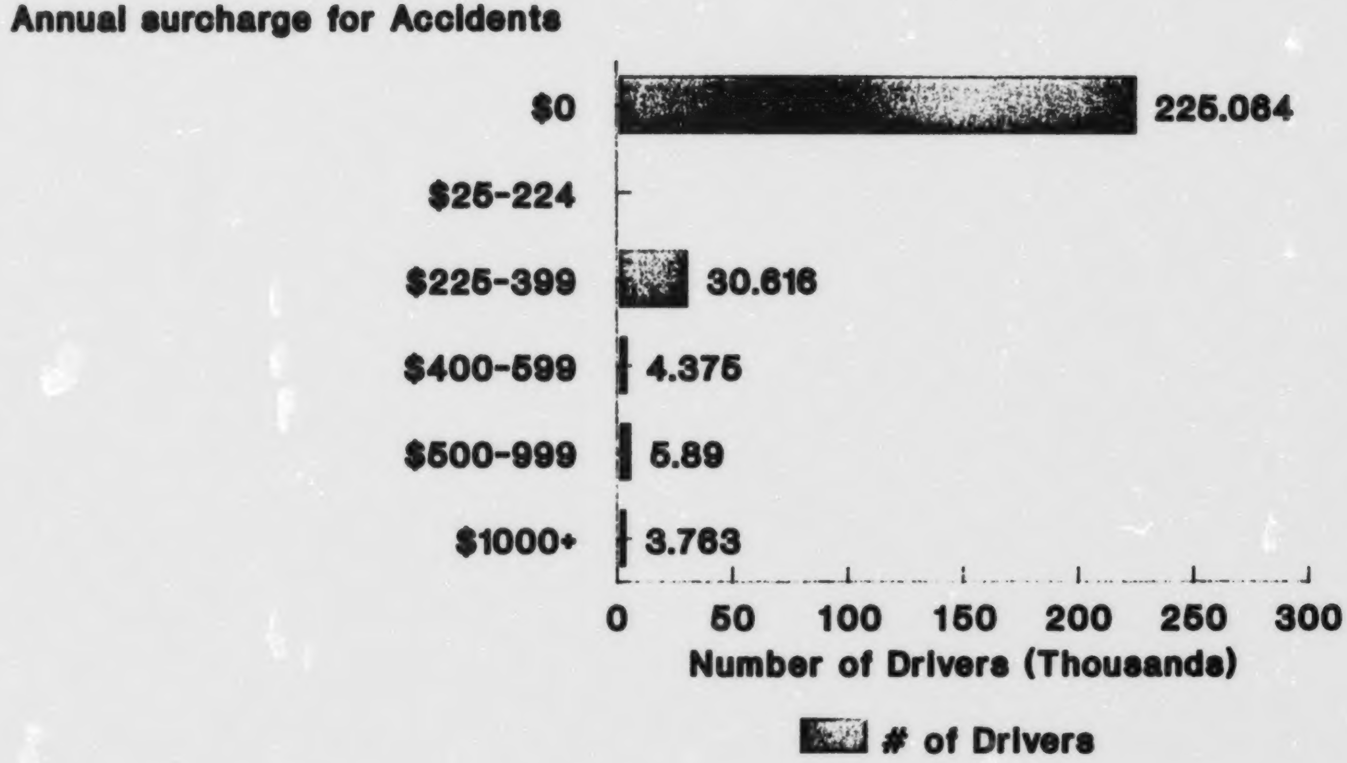


Source: MPIC & TEW

FIGURE 3.3

AUTOPAC REVIEW COMMISSION

Number of Drivers Paying Surcharges
Estimated 3-year Retrospective

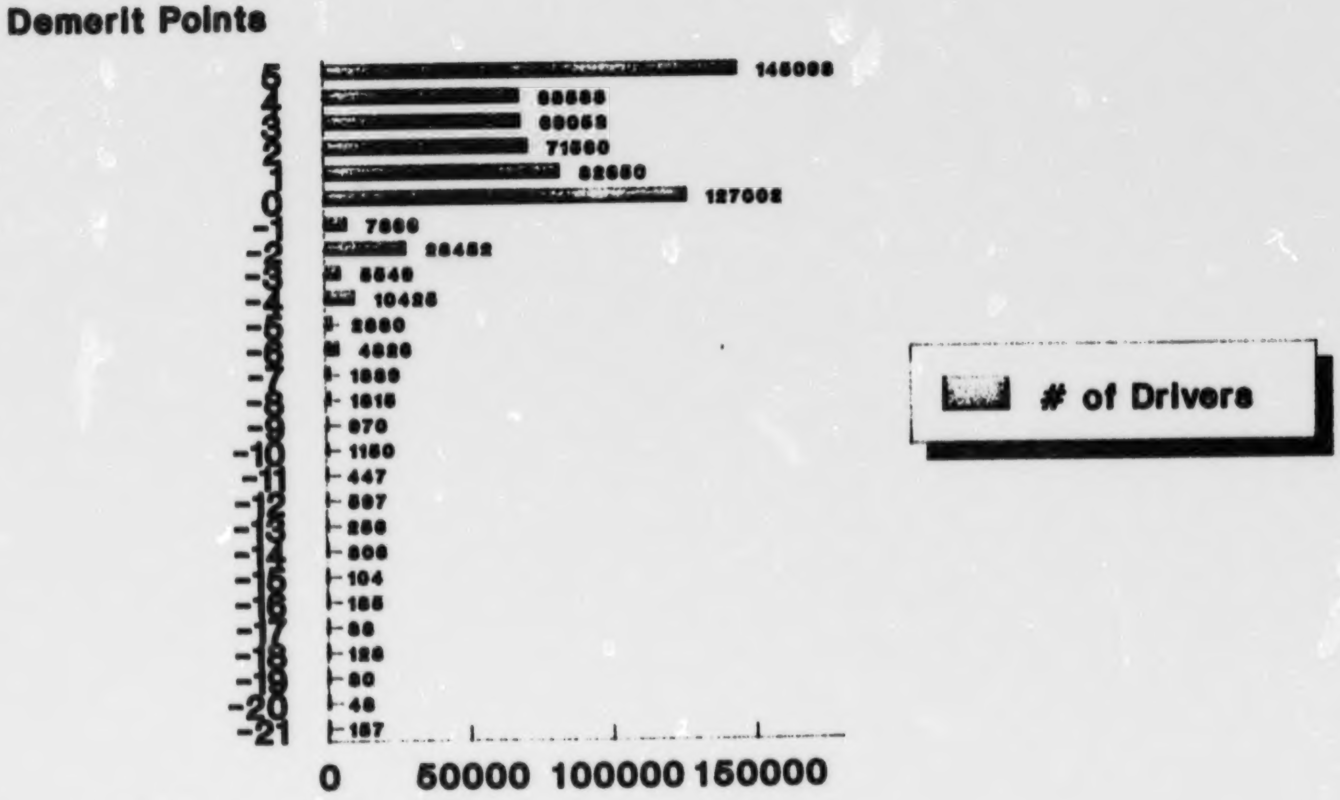


Source: MPIC Special Report

FIGURE 3.4

AUTOPAC REVIEW COMMISSION

Driver Merits & Demerits
Number of Drivers, 1988



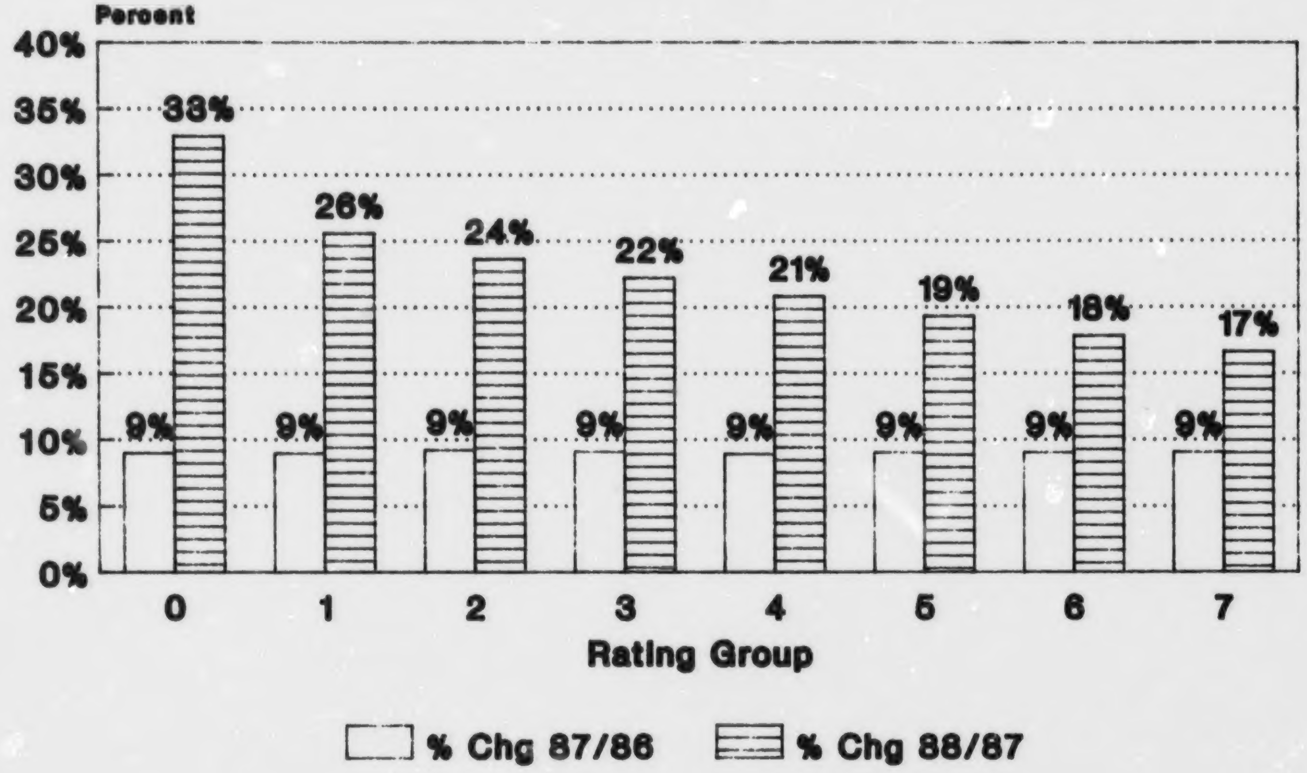
Source: MPIC

FIGURE 3.5A

PASSENGER CARS PREMIUM LEVEL

Percentage Changes

Territory 1 (Winnipeg); All Purpose Use



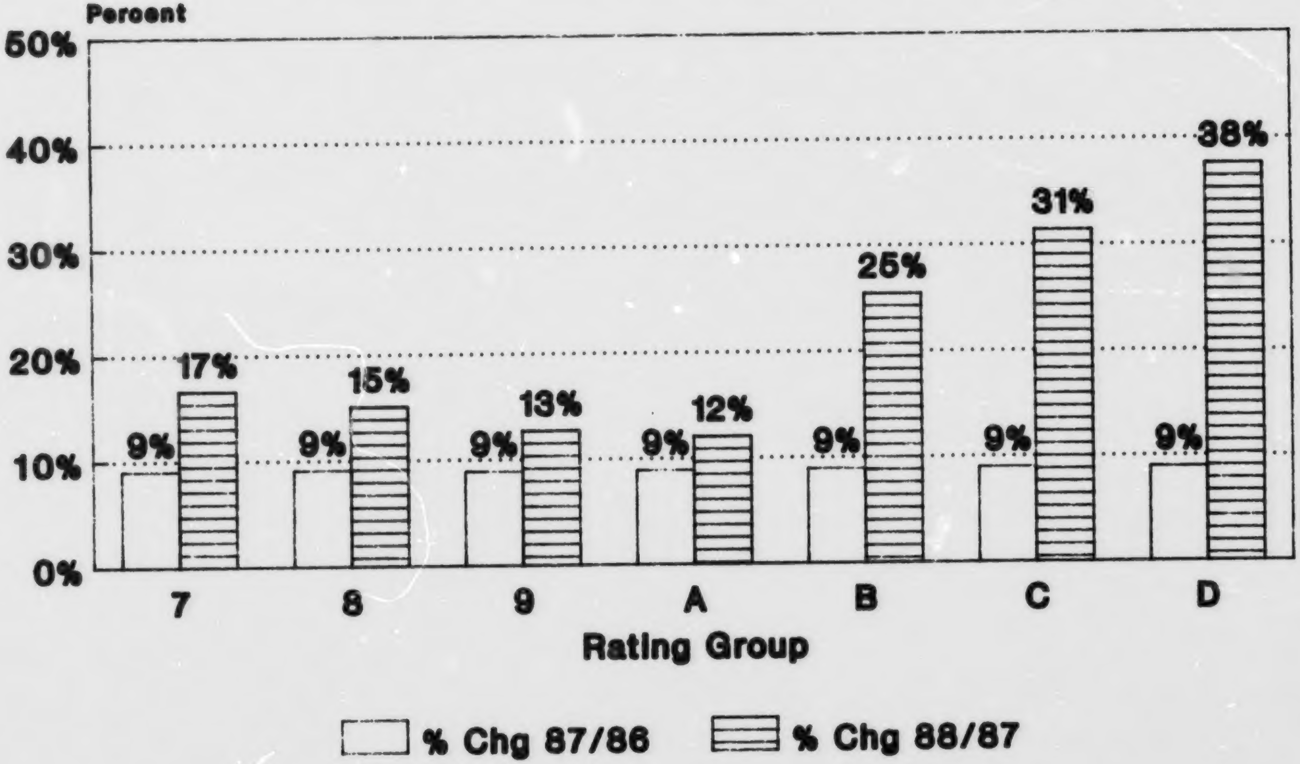
Source: MPIC A13LLRPC

FIGURE 3.5B

PASSENGER CARS PREMIUM LEVEL

Percentage Changes

Territory 1 (Winnipeg); All Purpose Use



Source: MPIC A13LLRPC

FIGURE 3.6

CORPORATE ORGANIZATION CHART

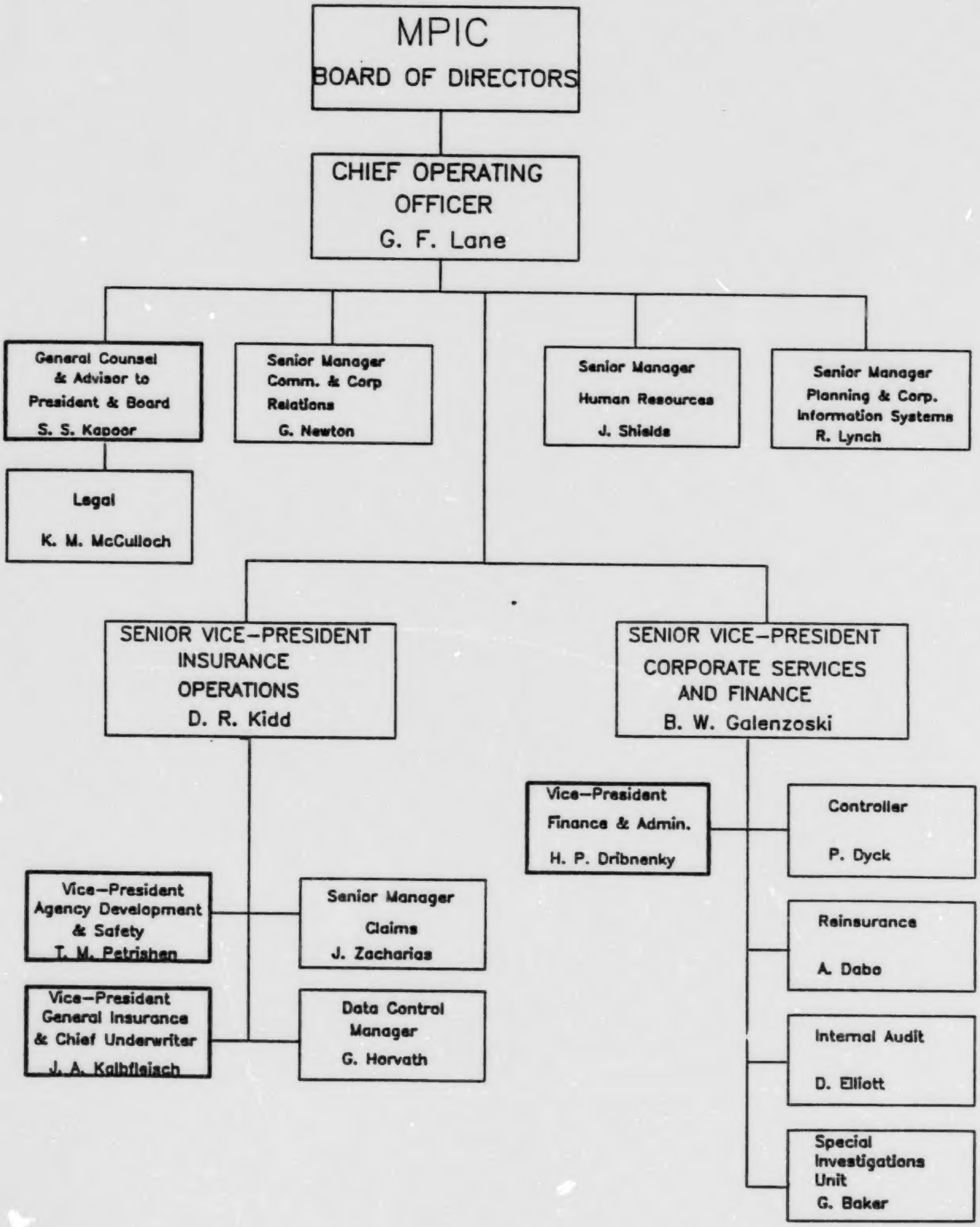
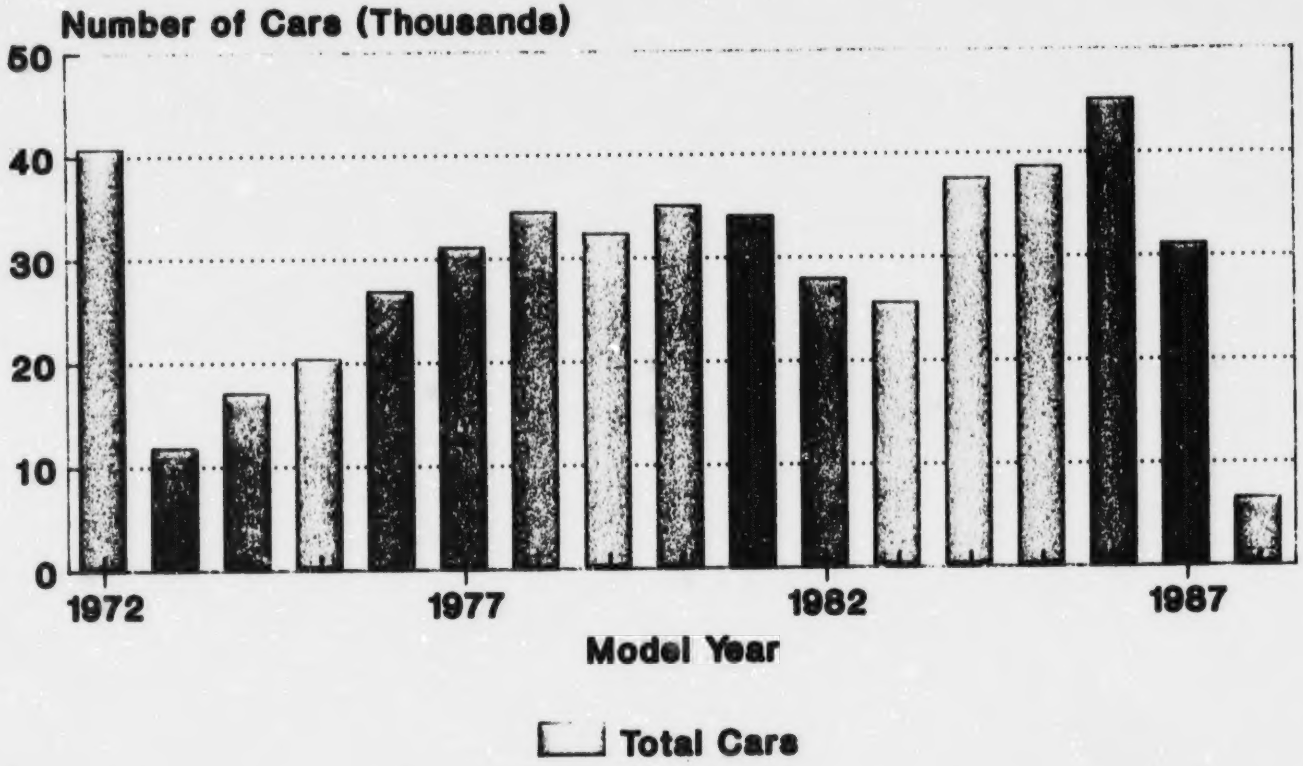

MPIC
BOARD OF DIRECTORS
CHIEF OPERATING OFFICER
G. F. Lane
General Counsel & Advisor to President & Board
S. S. Kapoor
Senior Manager Comm. & Corp Relations
G. Newton
Senior Manager Human Resources
J. Shields
Senior Manager Planning & Corp. Information Systems
R. Lynch
Legal
K. M. McCulloch
SENIOR VICE-PRESIDENT INSURANCE OPERATIONS
D. R. Kidd
SENIOR VICE-PRESIDENT CORPORATE SERVICES AND FINANCE
B. W. Galenzoski
Vice-President Finance & Admin.
H. P. Dribnenky
Controller
P. Dyck
Vice-President Agency Development & Safety
T. M. Petrishen
Senior Manager Claims
J. Zacharias
Reinsurance
A. Dabo
Vice-President General Insurance & Chief Underwriter
J. A. Kalbfleisch
Data Control Manager
G. Horvath
Internal Audit
D. Elliott
Special Investigations Unit
G. Baker

FIGURE 3.7

AUTOPAC REVIEW COMMISSION

Total Passenger & Delivery Cars

Model Year , 1972 & before - 1988



Source : MPIC A13H700-1

FIGURE 3.8

AUTOPAC REVIEW COMMISSION

Antique, Classic and "Old" Car Registration

TYPE	REGISTRATION	BASIC AUTOPAC	VEHICLE USE	BASIC COVERAGE	ADDITIONAL COVERAGE (Re: Increased Value)	APPEAL ON APPRAISED VALUE
Old Car - any age	Regular System	Regular System	No restrictions (in accordance with insurance selected)	As selected	None Wanted	N/A
Old Car - 15 years old at least - owner believes car is "valuable" "classic"*	Regular System	Regular System	No restrictions (in accordance with insurance selected)	As selected	Private market or S.R.E. Brandon - customer gets car appraised by MPIC - buys S.R.E. policy to cover excess.	MPIC reserves right. Private insurers are an option.
Old car - 30 years old at least - owner wants plate & reduced insurance.	Special "1" time registration of "Antique"** (good	Reduced Premium	Severly limited use (Sec. 333(3) H.T.A.)	Max. $200,000 P.L/P.D. and accident benefit ("O" all perils)	Private Market or S.R.E.	MPIC reserves right. Private insurers are an option.

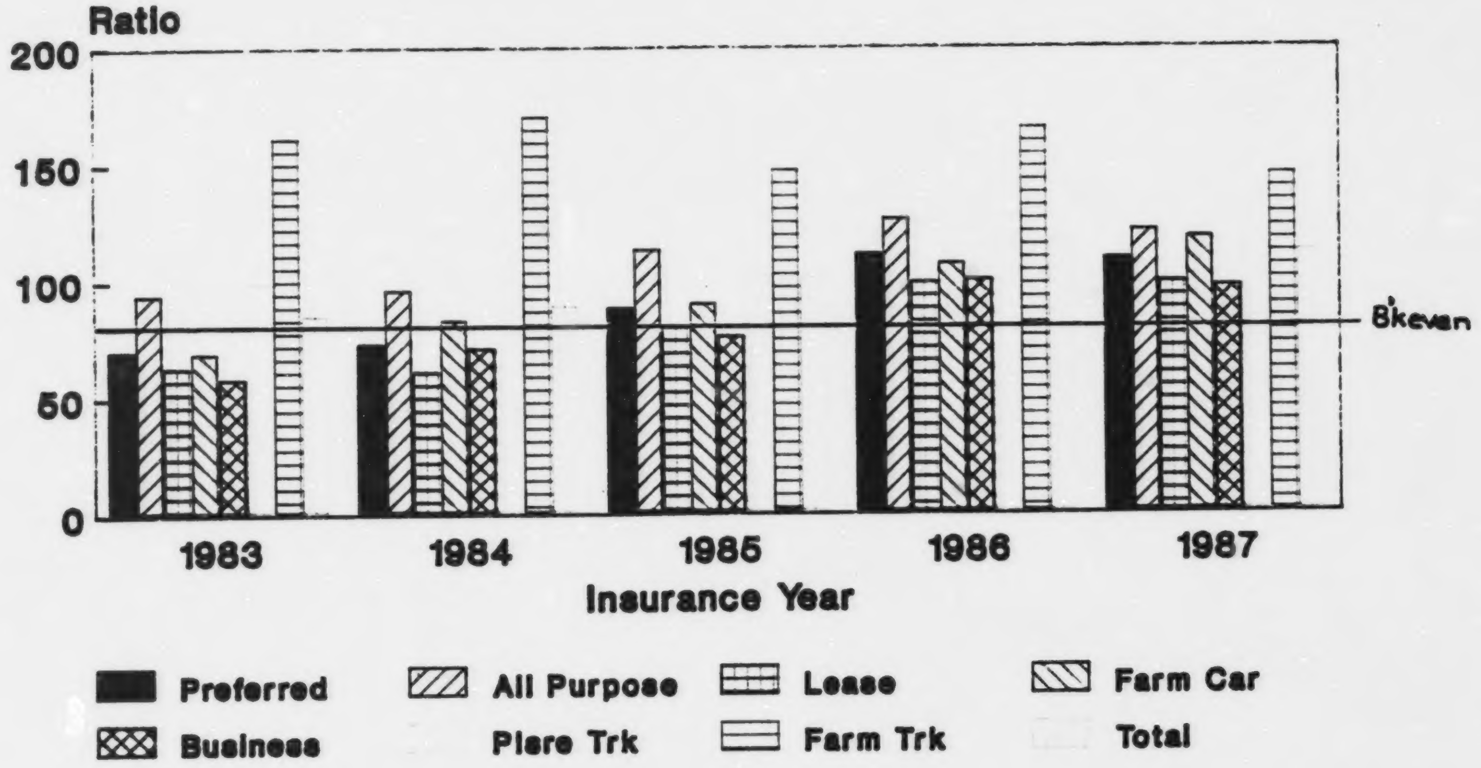
* no legal definition found

** defined in sec. 333 of the Highway Traffic Act.

FIGURE 3.9

AUTOPAC REVIEW COMMISSION

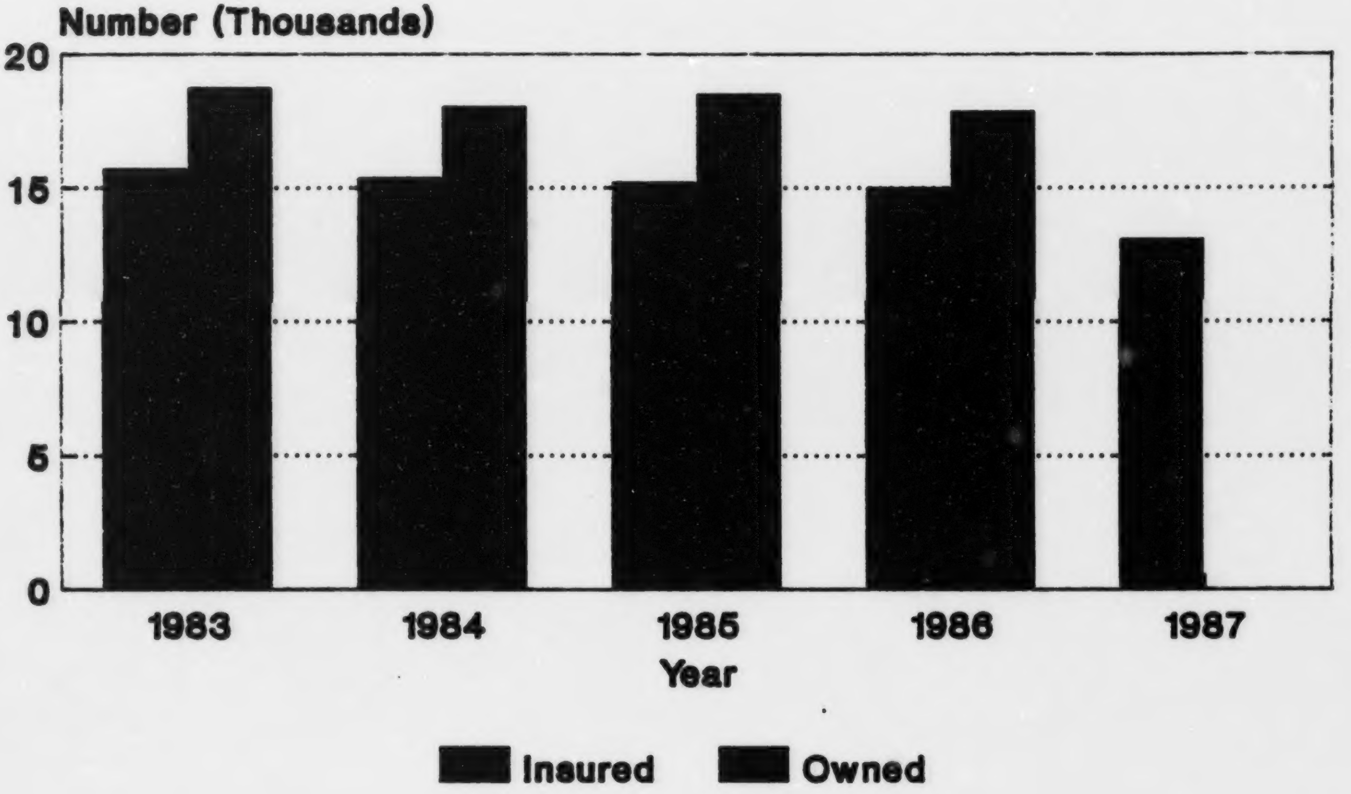
Loss Ratios for Selected Vehicles
Unadjusted, no Expenses 1983-1987



Source: MPIC A13H780-B1-2

FIGURE 3.10

AUTOPAC REVIEW COMMISSION
Motorcycles- Owned & Insured
1983-1987



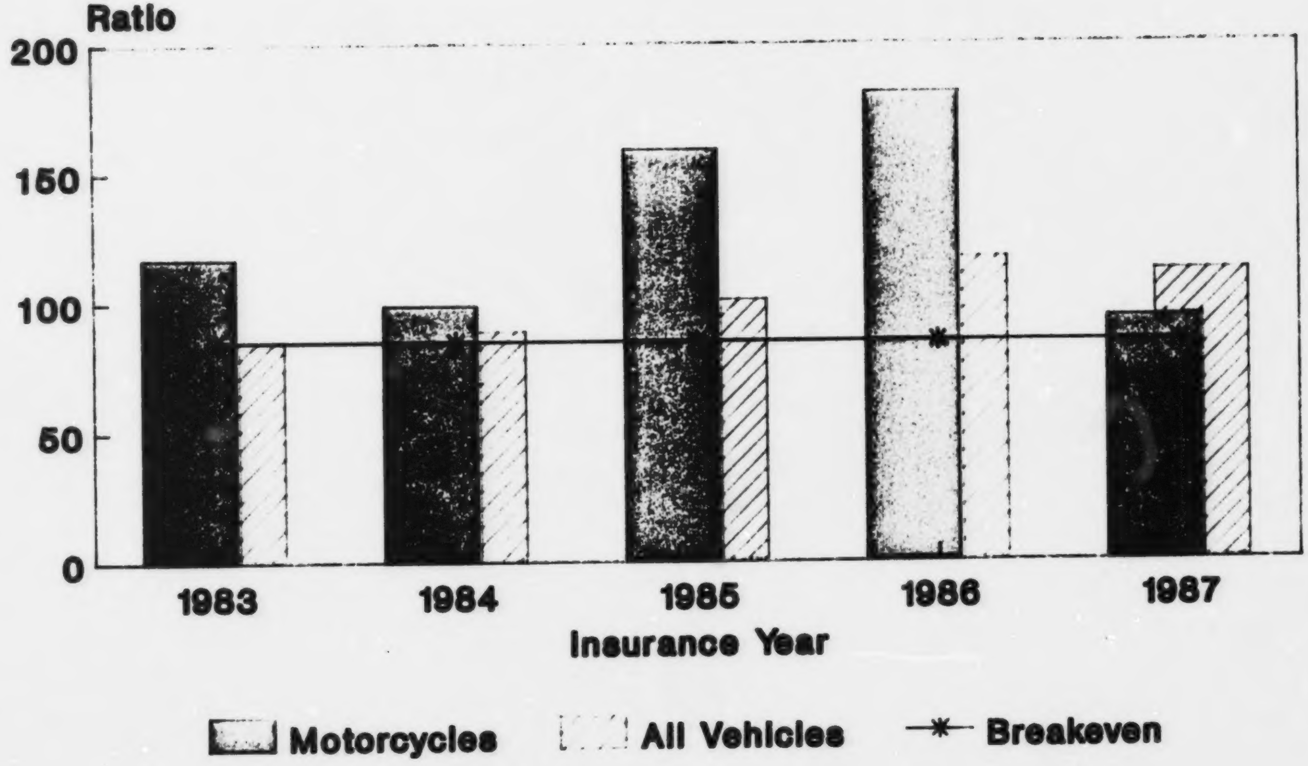
Source: Statistics Canada; MPIC

FIGURE 3.11

AUTOPAC REVIEW COMMISSION

Motorcycle Loss Ratios (Unadjusted)

1983-1987

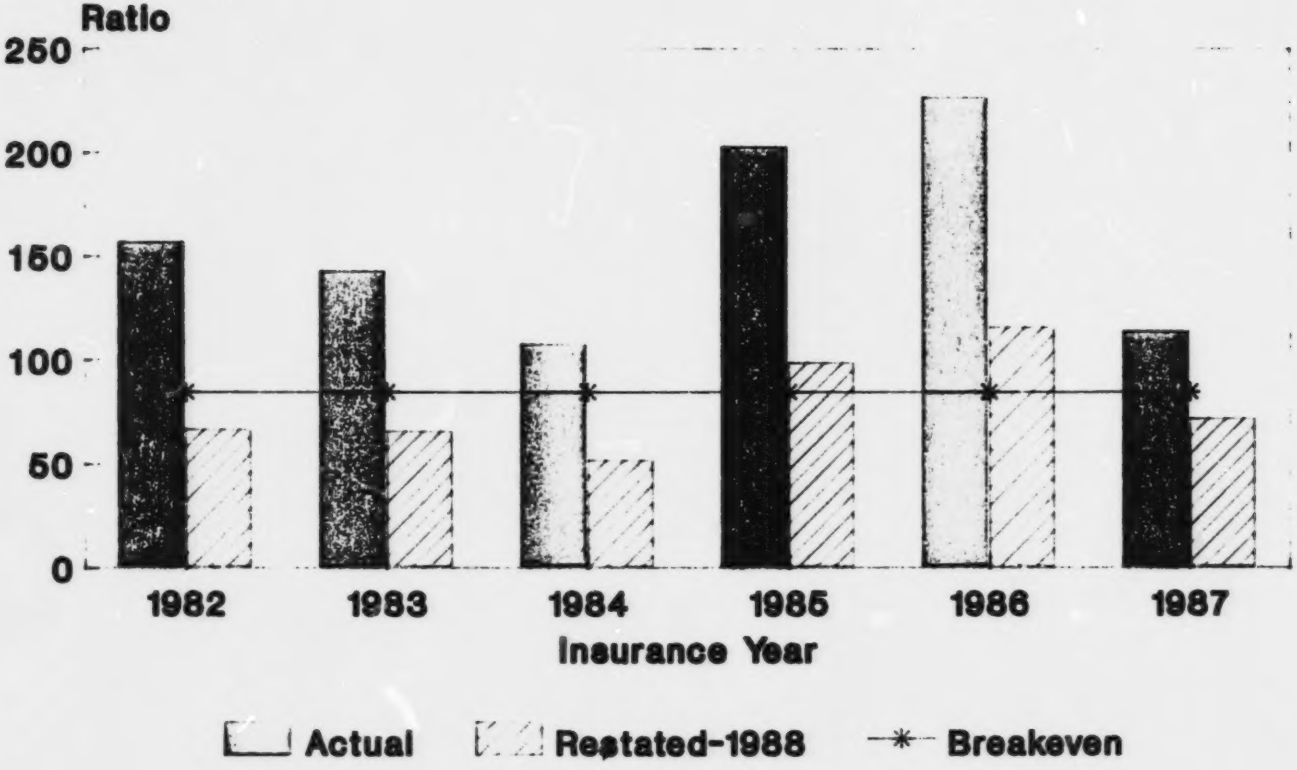


Source: MPIC A13H780-B1-2

FIGURE 3.12

AUTOPAC REVIEW COMMISSION

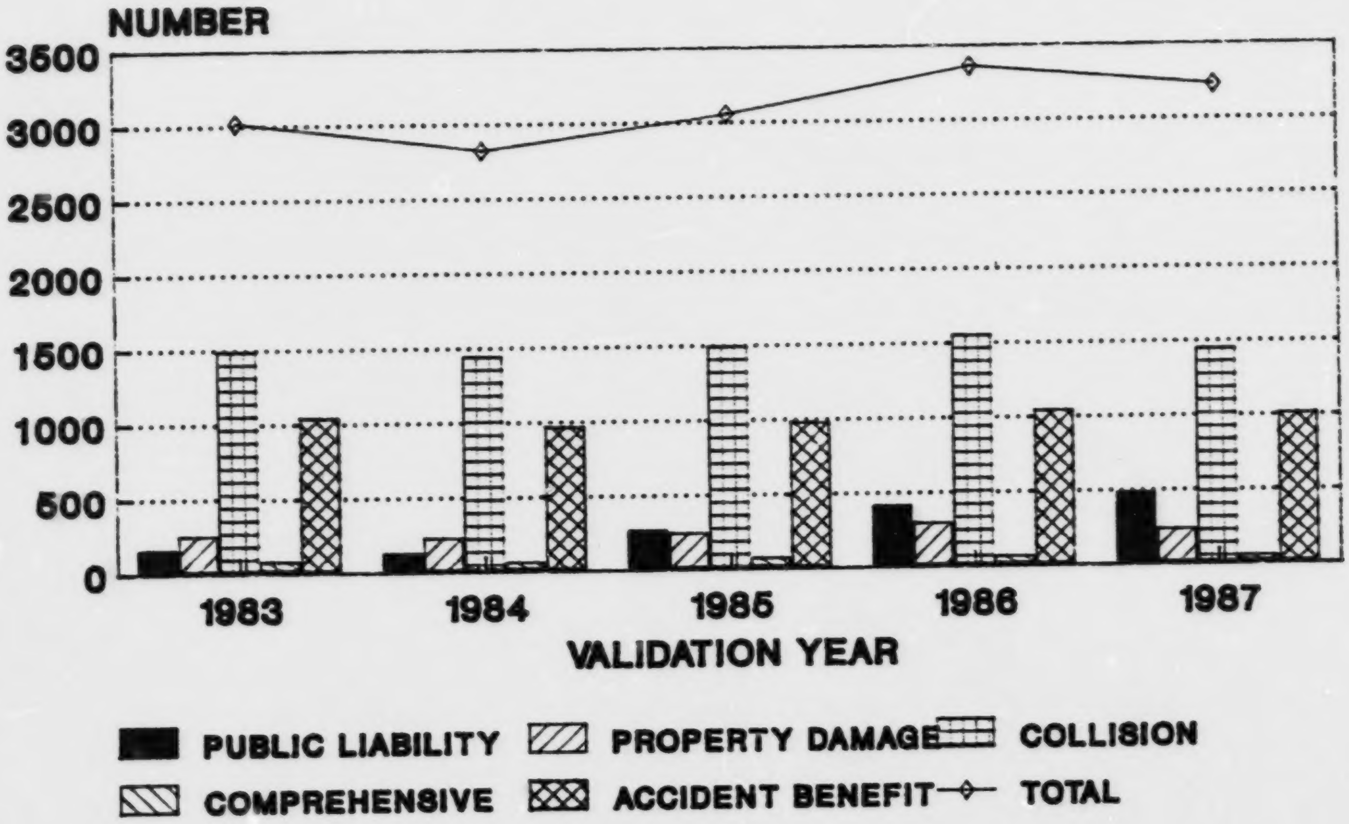
Motorcycle Loss Ratios: Actual & Restate
@ 1988 Premium Levels



Source: Coopers & Lybrand

FIGURE 3.13

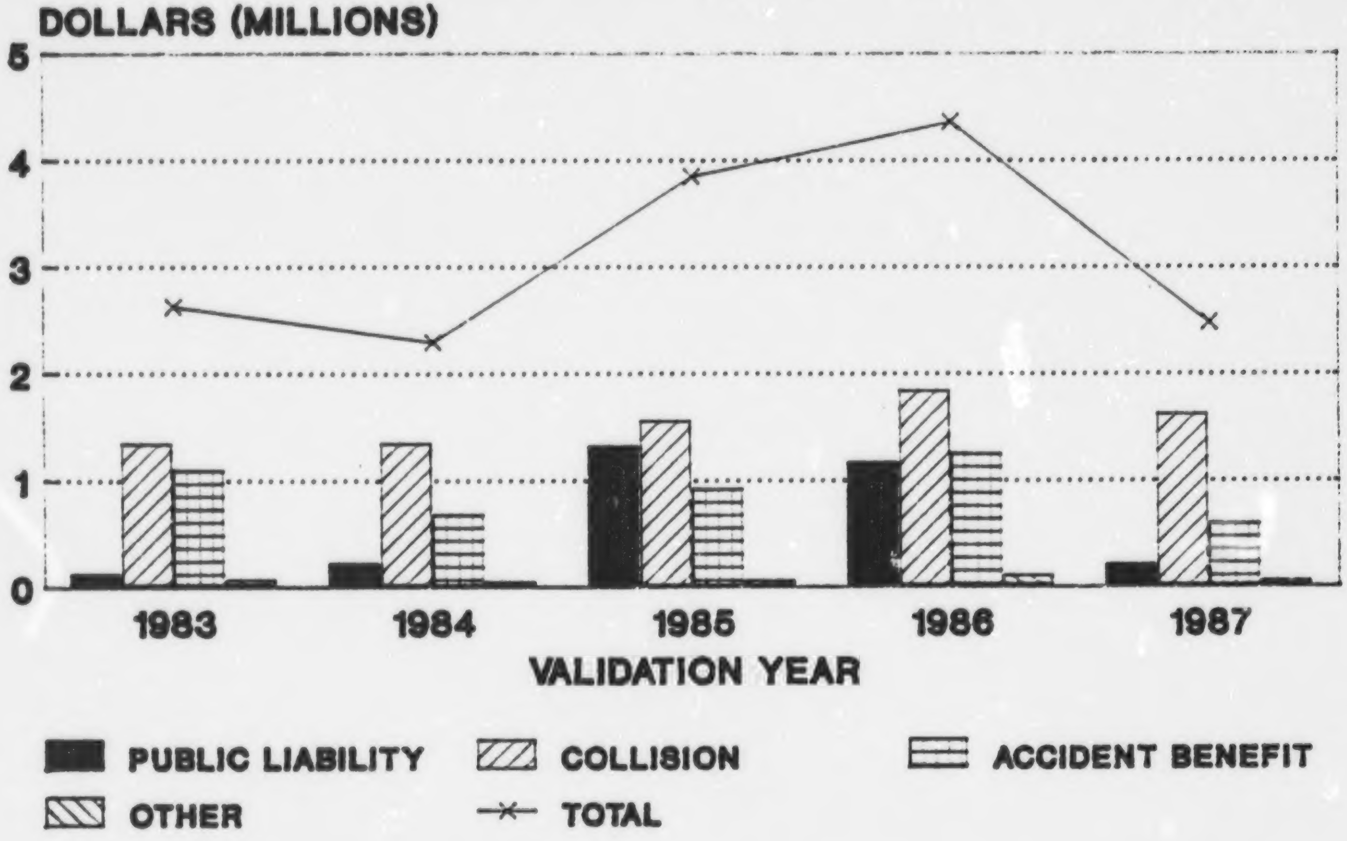
TOTAL # OF MOTORCYCLE CLAIMS
FOR THE PERIOD 1983-1987



SOURCE: MPIC:A13H780-D3-2

FIGURE 3.14

TOTAL $ VALUE OF MOTORCYCLE CLAIMS
FOR THE PERIOD 1983-1987

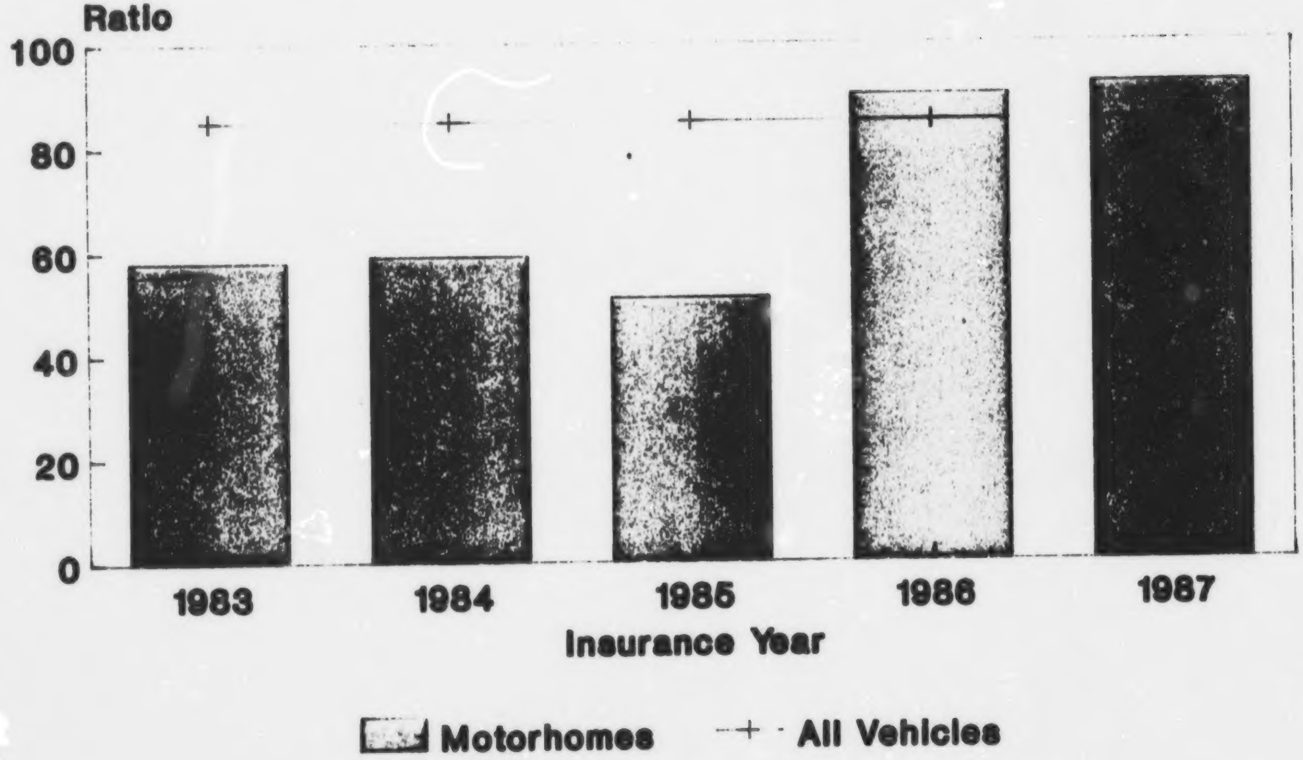


SOURCE: MPIC:A13H780-D3-2

FIGURE 3.15

AUTOPAC REVIEW COMMISSION

Motorhome Loss Ratios
Unadjusted for Expenses



Source: MPIC A13H780-B1-2

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FIGURE 4.7 AGENTS' COMMISSION - COMMISSION PER TRANSACTION AND COMMISSION RATE

AUTOPAC REVIEW COMMISSION

POSITION PAPER NO. 4

ENHANCING POLICYHOLDER SERVICES

Submitted to: Honourable Glen Cummings

Submitted by: Judge Robert Kopstein

A. HOW AUTOPAC BUSINESS IS WRITTEN

MPIC employs three channels to deliver Autopac to policyholders: commissioned agents, direct sales, and non-commissioned agents. The relative volumes of transactions for each channel are shown on Figure 4.2; direct sales and non-commissioned agents appear together as "non-commissioned" agents.

1. Commissioned Agents

Commissioned agents conduct most of the policy servicing. In 1987, they processed 84.2 percent of the transactions and collected 90.9 percent of the total premium. According to Wiebe and Associates, the consulting firm that assessed policyholder services for the commission, there were, in February 1988, 386 commissioned agency outlets in Manitoba. They were geographically dispersed "more or less in proportion to the population"[1]. Three hundred and twenty-two agencies had one outlet and 20 agencies operated another 64 outlets.

Clearly, commissioned agents are the foundation of Autopac's delivery system.

2. Direct Sales Arrangements

MPIC performs directly a substantial volume of it own policy servicing work. Mostly, this is done by MPIC staff located at the offices of the division of driver and vehicle licencing (DDVL) of the Manitoba department of highways (often known by its previous name, the Motor Vehicle Branch).

---

[1] Wiebe and Associates, Autopac Delivery System July, 1988.

I. INTRODUCTION

The commission undertook a separate study of vehicle repairs insured under Autopac. Vehicle damage and repairs are important both financially and economically. In the fiscal year ending October 31, 1987, The Manitoba Public Insurance Corporation (MPIC) spent $171 million on vehicle repairs. Approximately one-half of this amount was made up of labour charges. Assuming an average charge-out rate of $33 an hour, this translates to the equivalent of more than 1,700 person-years of employment. It represents only employees of private automotive trade businesses whose time is charged to MPIC. There are many others whose time does not so appear: counter staff, parts workers, delivery drivers, tow truck operators and others. Thus, the livelihood of many Manitobans depends upon income earned by carrying out repairs that are financed by MPIC.

Members of the automotive trade and of the general public hold contrary views. Automotive trade representatives contend that MPIC compensates them inadequately for their work due to unrealistically low rates. MPIC is perceived as being autocratic. The discussions that take place between representatives of the corporation and the automotive trade do not seem in their estimation to be fair negotiations. Moreover, they believe that the political benefits that accrue from low labour rates weaken their bargaining position.

Members of the general public frequently hold the opposite view. I received both verbal and written submissions in which the opinion was expressed that MPIC was paying too much for repairs. The automotive trades were depicted as taking advantage of the corporation by carrying out unnecessary work and charging too much.

DDVL has offices in Winnipeg, Brandon, Thompson, and other communities. A few transactions are processed at MPIC's administrative offices at Eaton Place in Winnipeg.

In addition to offering most Autopac services, DDVL offices alone are authorized to register and arrange insurance on certain classes of vehicle including taxis and public service vehicles (trucks used for shipping goods under contract).

3. Non-Commissioned Agents

The third distribution channel is the non-commissioned agent. These agents are operators of large fleets which MPIC has authorized to process their own insurance transactions. There are currently only two non-commissioned agents: the Manitoba Telephone System and Manitoba Hydro. This arrangement is a benefit to the Crown corporations and to MPIC. Part of the agreement is that MPIC pays no commission. The two Crowns also benefit for they are not obliged to visit an agent for every insurance transaction or vehicle registration.

According to the commission's consultant, the department of highways also has an agreement with MPIC whereby it processes its own transactions analogously to the MTS and Manitoba Hydro arrangements. However, for reasons that are unclear, several years ago the department's status changed from non-commissioned agent to commissioned agent. MPIC now remits to the department a commission fee. In validation year 1987, the department "earned" commissions of $64,941.00. When the commission asked MPIC why this change was made, no reason was offered. The current arrangement amounts, in effect, to a subsidy paid by MPIC to the department of highways. If the department is unwilling to perform the service for no commission, I believe its agency licence should be cancelled.

As shown in Figure 4.3, commissioned agents process mostly renewals while the others usually process greater proportions of other types of transactions.

Recommendation No. 4.01: That, effective insurance year 1989, the agency currently operated by the Manitoba department of highways be decommissioned if the department is unwilling to waive the commission it now receives.

B. ASSESSMENT OF ALTERNATIVE DISTRIBUTION METHODS

The current distribution system is carefully controlled by Autopac: agents must possess a general insurance license, agency locations are assigned so as to ensure reasonable coverage of urban downtown and suburban areas and rural communities; agents must be able to follow specific guidelines in handling/remitting funds and in distributing and storing controlled items such as stickers; and advertising and display are subject to specific rules. The system provides Manitobans with convenient access to policyholder services throughout the province. Commitment to the agency system was part of the social contract made with Manitobans when Autopac was implemented in 1971. Due to these factors, changes should only be made following full consideration of the consequences for policyholders, agents and MPIC. Several such changes have been suggested to me.

It has been proposed that MPIC's controls over the location of agencies be relaxed. This would, in my opinion, ultimately lead to overservicing of certain locations at the expense of others. As a publicly-owned company, MPIC cannot leave areas of Manitoba without reasonable service. Thus, controls over agency locations must remain.

Autopac policy servicing costs might be reduced by expanding direct sales. For example, operators of large commercial fleets might be authorized to process their own paperwork in return for a reduced premium. However, I believe this would be counterproductive. Because agency income would be diminished, MPIC might well have to reduce the number of agency outlets. In turn, this could inconvenience policyholders.

Autopac agency servicing costs might also be reduced if the agency system were thrown open to any insurance agent who possessed a general license. An approach somewhat like this has been adopted in B.C. This open market might be diversified further if other organizations such as the Manitoba Motor League (MML) were allowed to participate. The MML would employ licensed agents to offer services to their members or to the community at large. These schemes would control servicing costs through the presumed salutary effect of expanded competition; as well, large organizations such as the MML would enjoy economies of scale in their services and, probably, could piggyback Autopac services on other programs, further restraining policy distribution costs. On the other hand, an open market system for agents is not necessarily better: it would likely be more volatile as agencies would be free to join or withdraw from Autopac as they wished. Certain areas of the province could be underserved. Large operators could drive small agencies out of business and then consolidate later their operations so as to reduce costs. Agents, driven out of business by any of these proposals would, in my opinion, have to be compensated under the terms of the 1971 compact between the agents and the government of Manitoba. Moreover, under an open system, Autopac's administration costs could well rise to accommodate training of agency staff and monitoring of agency practices.

I find that current agency system best serves the consumer needs of Manitobans.

Recommendation No. 4.02: That a carefully controlled network of commissioned agents continue to be the major distribution channel for Autopac policyholder services.

III. COMPENSATION FOR AGENTS' SERVICES

Compensation of Autopac agents is important for two major reasons. First, the fees should compensate agents fairly for the services they provide. Second, the remuneration of agents is also an economic motivator: in response to income opportunities, agents will tend to spend more or less time on certain services. Thus, I have considered agents' commissions and fees in terms of their fairness and also their effectiveness as incentives.

A. CURRENT COMMISSIONS AND FEES

Agents are currently receiving two forms of compensation: percentage commissions and flat fees for particular transactions. As shown in Figure 4.4, agents earned their commissions and fees by writing nearly $300 million in business. On new applications and renewals, the agents receive five percent of the premium on basic Autopac coverage; agents receive a ten percent commission for writing extension coverages. For example, an agent receives a commission of ten percent of the premium to increase third party liability coverage, or to buydown the deductible. A schedule of flat fees, for transactions such as transferring ownership to a spouse, comprises the balance of the compensation structure.

In his report on the Autopac distribution system, the commission's consultant assessed changes in the average value of commissions per agency in the past 11 years. Table 4.1 is a summary. The total value of commissions is shown also in Figure 4.5 where, in addition, the total value is divided into the commissions received for basic coverage and extension coverage. The figure shows that percentage commissions (either five or 10 percent) accounted for most of agents' incomes; agents received little income in total from flat fees.

Table 4.1 reveals that between 1977 and 1987, the average total commission paid per agency increased from $13,595 to $35,805; this is an increase of 163.4 percent in a period when the Consumer Price Index (CPI) for Winnipeg rose 97.4 percent. Over this same interval, the average commission per transaction, excluding refunds, which carry no commission, increased from $6.54 to $13.14, an increase of 100.9 percent. Figures 4.6 and 4.7 confirm that increases in CPI and average commissions per transaction have been roughly parallel over the decade to 1987. Therefore, in terms of total commission per agency and average commission per transaction, I find that agents' incomes have more than kept pace with the cost of living since 1977. In 1988, though not covered in the table because only incomplete data is available, significant increases for agents likely are occurring as commissions rise due to the 1988 rate changes.

Because premiums are lower in Territory 2 (southern Manitoba, exclusive of Winnipeg), agents there have less potential to earn commission income. Recognizing this inequality, MPIC adjusted the compensation for agents in Territory 2: the income on certain transactions is calculated as the sum of a flat rate plus a percentage commission. On farm trucks, for instance, agents receive a commission of $3.00 for a new registration or renewal plus the usual percentage of premium. This has helped alleviate the problem. For 1987, the average commissions per transaction were $13.01 in Winnipeg, $10.76 in Territory 2 and $11.37 in Territories 3 and 4 (together comprising the area north of the 53 parallel of latitude).

Reflecting the diverse Autopac business each writes, agencies earn varying average incomes per transaction. The variability, even within a territory, is quite marked. The agency with the least average income per transaction in Winnipeg earned $8.93 per transaction; the agency with the highest received $20.38 per transaction or 60 percent more. The range in other territories is comparable. The commission's consultant reported:

> "While these differences seem significant the agents themselves did not consider this to be a problem since they felt that low commission rate transactions still brought customers to their offices."

In their submission to the commission, the Insurance Brokers Association of Manitoba did not raise the matter.

B. POTENTIAL IMPROVEMENTS IN THE COMPENSATION STRUCTURE

The current dependency of agents on commissions, rather than fixed fees, has several advantages and disadvantages.

The main advantage of commissions is that they provide an incentive to agents; their incomes rise or fall in proportion to the amount of Autopac premium they write. This provides agencies with a reward for improving customer services and generating increased business. A second advantage for agents is the potential for windfall revenue if Autopac rates sharply increase, as they did in 1988.

As mentioned, one drawback may be any remaining inequity due to lesser commissions in territories with lower premiums. Another limitation is the agent's risk of losing real income (after inflation is considered) when premiums remain static or decrease slightly. Agents' incomes from year to year depend, in large measure, on forces affecting premium levels which are beyond agents' control.

Some of the current weaknesses would be mitigated if a flat fee structure rather than percentage commissions were introduced for basic Autopac insurance sales. Flat fees for basic Autopac transactions would be combined with percentage commissions on the sale of extension coverage. All agents, regardless of territory, would receive the same transaction fees for handling the basic, or compulsory, portion of the coverage. In effect, this approach recognizes that only a limited sales effort is required of agents, because the terms of the coverage are fixed. Flat fees would not decline when premiums did. As well, agencies would still be encouraged to seek out customers as income would depend on the volume of transactions. Moreover, agents would continue to be compensated on a percentage basis for extension coverages which they are expected to market by applying their professional skills to meet individual policyholder needs. The Insurance Corporation of British Columbia now uses a system similar to that just described.

In order to be equitable, I do not believe this new compensation system should be implemented to save money; I do not propose that, in aggregate, agents' total incomes should suffer, only that the basis of calculation be changed. Also, to be fair to agents, flat fees should be adjusted from time to time, in keeping with inflation and the complexity of transactions. For example, if due to a future change in MPIC's procedures, agents had to do substantially more work, the flat fees for the affected transactions should be increased.

Finally, MPIC may have to consider increasing the commission rate it pays for extension coverage, especially if the corporation introduces more coverage options or new combinations of options.

Recommendation No. 4.03: That, effective not later than insurance year 1990, Autopac agents be compensated by means of:

- A schedule of fixed fees for assisting in the writing and administering of basic Autopac insurance.
- Percentage commissions for assisting in the writing and administering of extension Autopac insurance.

And, furhter, that MPIC consult regularly about changes in agents' compensation with the Insurance Brokers' Association.

IV. OTHER POLICYHOLDER SERVICES

The most important service that MPIC provides to Autopac policyholders is insurance protection. However, this is only one customer need. In this section, I assess the requirements for a time payment plan and cyclical renewals. Also, I consider how policyholders may arrange financing of premiums.

A. PREMIUM TIME PAYMENT PLAN

How it operates

The time payment plan in 1988 operates as follows: the initial time payment equals half the total premiums; the corporation must provide coverage for six months of the insurance year, that is until the end of August. The remaining time payments are due May 30 and August 31; in case of default on later installments, the corporation may suspend coverage effective August 31st. In order to deal with the problem of delinquency -- which amounted to 25,000 out of 765,000 registrants last year -- the corporation instituted a number of restrictive policies in 1988. One of these was to require an additional payment of an administrative fee of $10, and $20 where a late payment was involved. Second, if no second/third payment fee were forthcoming by August 1, then the corporation seizes the premium for the month of August, as a penalty, and declares the individual suspended effective August 1.

These policies are likely to have the effect of remedying many of the problems associated with large numbers of delinquent accounts.

In 1988, nearly 190,000 Autopac policyholders are utilizing MPIC's current time payment plan. Table 4.2, shows that over the past six years about 25 or 30 percent of policyholders have taken advantage of the plan annually. The table also contains other central statistics of the operation of the plan, such as the amount collected in time payments. Peat Marwick, in a 1987 study prepared for MPIC, found that the current time payment plan is supported by 90 percent of policyholders. However, weaknesses remain.

Weaknesses

One of the difficulties with the current plan is that MPIC experiences costs in collecting the second and third payments.

Currently, a policyholder is, in effect, being allowed to "finance" the payment of automobile insurance premiums. This raises a second problem with the system as the administrative fee is a flat $10. It is unrelated to the amount of insurance purchased. For instance, someone delaying a $500 premium on a Mercedes-Benz would pay the same six month administrative fee as someone delaying a $100 premium on a Chevrolet.

Also, the level of the fee is insufficient to compensate MPIC for its administrative costs, much less for the loss of use of the premium money (on which income could be earned). Moreover, the fee should be more carefully calculated to reflect MPIC's costs in administering the receivable. There are two reasons why this should be done. First, those who pay their premium beforehand save the corporation administrative costs. Second, the corporation avoids both the expense of mailing notices for additional payments and collection costs. Despite these problems, a flat fee represents a reasonable balance between administrative simplicity and equity.

MPIC might wish to consider charging policyholders, who choose time payment, a reasonable interest rate on outstanding balances, perhaps two percent above the prime rate.

Those who fail to pay second/third installments may forfeit their registration and insurance but still possess a licence plate and sticker that appears valid. Some of these motorists continue to drive even though they have no coverage. This is a more serious problem than having to collect late payments and it should be addressed.

Commercial Vehicles

As well as the regular time payment plan, Autopac offers premium financing to operators of commercial vehicles. Unlike the financing service for private motorists, this plan requires payment of only 25 percent of the total premium at the beginning of the policy term. The balance is paid in equal consecutive monthly installments until December 1. MPIC charges these customers the prime lending rate in effect on January 1 of the same year. For 1988, the interest rate applied was 10.75 percent . There are no additional service fees -- customers pay monthly only accrued interest plus a portion of the premium.

In effect, MPIC may be offering preferential financing terms to its commercial customers compared to private motorists. This is inconsistent. Also, the practice takes the corporation into the field of commercial credit, a responsibility that I do not consider to be within MPIC's mandate. Moreover, it exposes the corporation to financial risk. In the case of individual motorists, the corporation is always in a position of having received more premium that it requires. If a second or subsequent payment is missed, the corporation has on hand three months of premium upon which it can fall back while it attempts to collect the delinquent payment. If all else fails, the corporation can call upon the division of driver and vehicle licensing to revoke the vehicle registration. Since the corporation's time payment plan for businesses operates on a month-to-month basis, it does not have a three month window within which it can take corrective action.

It is unclear to me why MPIC offers a more generous plan for commercial, compared to other, policyholders. Most businesses are in a position to use a line of credit provided by a normal lending institution. Individual motorists, who may or may not have access to such credit, are required to pay, in relative terms much higher effective charges (due to the level of administrative fees and the shortness of the financing period).[2]

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[2] It is in fact not defined by the corporation to be interest but rather an administrative fee.

At the very least, one would expect both plans to be subject to the same administrative fee structure, if not the same "financing" component.

Time Payment at SGI and ICBC

The Insurance Corporation of British Columbia (ICBC) and Saskatchewan Government Insurance (SGI) do not offer premium financing services. ICBC ceased this service in 1982; instead it now offers a reduced policy term of at least six months for those who prefer to pay for less than a year's coverage. ICBC indicated that it abandoned its time payment plan due to collection problems. (In British Columbia, motorists may pay by credit card if their agent accepts it.)

Post-dated Cheques

It was suggested to me that MPIC should accept post-dated cheques. This, it was contended, could ease peak loading in agents' offices by facilitating policyholders completing the transaction, without a financial penalty, anytime before March 1. However, it might leave either the agent or MPIC in an awkward situation if the cheque later was returned by the bank for "not sufficient funds". Collection of the delinquent account would be hampered by the fact that the renewal sticker would already have been handed out.

Use of Credit Cards

Peat Marwick determined that two-thirds of respondents said payment by credit card would be worse than the current methods. (Also 52 percent would be opposed to the use of special stickers to determine who is on a time payment plan, and who is not.) Because credit card companies insist that a flat percent be charged to every person making a purchase, whether through a credit card or not, the use of a credit card by *some* would require the corporation to increase its rates for *all* policyholders. In my opinion the credit card option is not desirable.

Recommendation No. 4.04: That, effective not later than insurance year 1990, MPIC modify its time payment plans so as to make them similar in financial effect for different classes of vehicles, and so as to charge an administrative fee that compensates the corporation for its administrative costs; and that MPIC study how and whether,

- its time payment plans can account in a simple fashion for the investment income foregone by MPIC,
- the time payment plans for all vehicles, except where impractical, should be adjusted to allow for a 25 percent initial payment, followed by three equal quarterly payments, with participants identified by a special sticker.

B. ADVANTAGES AND DISADVANTAGES OF RENEWAL ALTERNATIVES

In Manitoba, almost all registration and vehicle insurance certificates expire on the last day in February. Renewal is for one year starting on March 1. There are a number of reasons why renewals should be allowed throughout the year. I present these reasons briefly and assess their validity.

1. To Reduce Economic Slowdown

It has been argued by business people and representatives of the media, that the payment of Autopac premiums causes a drop in consumer expenditures in the weeks leading up to and following March 1. Intuitively, this appears to make sense. However, on closer analysis and after noting Peat Marwick's research on the issue, I have concluded that the slowdown during the late winter is a common phenomenon to Manitoba and other provinces regardless of when automobile insurance policies expire throughout the year. I believe that, after the first year or two of the current system, most Manitobans have learned to plan for this outlay and, thus, minimize its impact on their personal spending patterns. Because many consumers use a variety of credit there is no reason to accept that every dollar spent on Autopac generates a concurrent reduction in spending on other items. For these reasons I am inclined to give little weight to the argument that staggered renewals should be adopted for economic reasons.

2. To Allow Agents to Give Better Service

It is argued that, under a staggered renewal system, insurance agents would have more opportunity to provide improved services. If the year-end rush were averted, agents would allegedly have more time to explain options or to market extension coverages. This would be a benefit to the agents, to MPIC and to clients since a better informed consumer would be more likely to be properly insured. Also, since most agents normally sell general and life insurance, they presumably could more readily promote the sale of these insurance products. This would be beneficial for the agent but not MPIC since the agent would derive commission income from the sale of products of another insurance company. If these benefits were likely to materialize, it would be an argument for staggered renewals. However, I expect most customers would still visit agents near the expiry of coverage. Since agents would be less likely to hire temporary staff for each of twelve month-ends, there might well be line-ups, as at present. The real amount of time spent with each customer might not change substantially. Therefore, I believe that this argument, while having some merit, is not a compelling rationale for staggered renewals.

3. To Allow More Flexible and Timely Rate Adjustment

A staggered renewal system would give the corporation the opportunity to adjust its rates in a more timely fashion. Since each month would be the beginning of a validation year for some portion of the province's vehicle owners, the corporation could adjust its rates soon after it realizes the need to do so. MPIC must now wait for the beginning of a new validation year. Although I would not recommend unscheduled rate changes, the corporation might have been able to lessen its recent losses had such a system been in place.

4. To Provide Greater Opportunity for Automation

As advocated by agents, the corporation is examining the feasibility of using an automated system for building an electronic link to its agents. Potential advantages of automated processing include a major lessening of errors in form completion and the ability to produce, at the agent's office, permanent registration and insurance certificates for policyholders. Online, or almost instant, updating by agents of the corporation's computerized policy files would also reduce workloads at MPIC's administrative offices.

Although a more fully automated Autopac renewal system would be streamlined and agent errors reduced, slightly more time could be needed by agency staff to process each transaction. If all policies were to expire on the same day of the year, it is unlikely that agents would be able to manage the workload needed to enter all the renewal data through a terminal. If the corporation is to make this technological advance, it would be easier if the single expiry date were changed to multiple dates throughout the year.

5. To Strengthen the Corporation's Cash Management Position

Policyholders pay premiums in advance of the coverage MPIC provides. Premium dollars can only be classified as revenue when they have actually been earned, that is, as the terms expire on outstanding policies.

The difference between premiums written and premiums earned is called the "premium float". Because it provides a temporary cash surplus that can be invested, the float is an important source of income for insurance organizations. MPIC begins each March with a premium float that exceeds $200 million. The value of the float declines month-by-month over the insurance year until it reaches a theoretical value of zero at midnight on February 28. Throughout the year, the average value of the float exceeds $150 million. When placed in short-term investments, at interest rates prevailing in August 1988, this produces approximately $13.5 million of annual income.

By renewing policies throughout the year, the corporation would dramatically alter the monthly pattern of its premium float. For example, if policies were renewed on the birthdates of vehicle owners, the float would fluctuate relatively little from one month to the next. It would probably never fall below $125 million in value nor exceed $175 million; the effect would be to create a floor value of $125 million.

A stable premium float would be a direct benefit for the corporation. To the extent that the corporation could count upon a minimum float, it could place these funds in long-term rather than short-term investments.

I am advised that upon these longer-term investments, the corporation could improve its return, perhaps by two percentage points per year. This corresponds to increased income of $2.5 million annually. (Depending upon how the corporation made the transition to staggered renewals, it may take a number of years, perhaps as many as ten, before this stability were achieved. MPIC would have to take into account short-term costs associated with the transition. It may be, in the first year, that the corporation's investment income could, in fact, be less than it currently is. However, the longer-term benefit should more than offset this cost.)

Recommendation No. 4.05: That, effective not later than insurance year 1991, MPIC convert to a system of policy renewals throughout the year in order to facilitate automation and to earn more income on the Autopac premium float.

C. HOW RENEWALS THROUGHOUT THE YEAR COULD BE INTRODUCED

If the corporation adopts staggered renewals, it must carefully plan the conversion. It must decide upon new expiry dates and how these will be assigned to policyholders. Alternative renewal dates include:

- The anniversaries of vehicle registration dates.
- Dates selected by policyholders.
- Birthdates of vehicle owners.
- Dates randomly selected by MPIC.

It is of secondary importance which method is chosen. However, after eight years, ICBC, which chose vehicle registration anniversary dates, still renews 30 percent of its policies in March. SGI, which gave the choice to policyholders, has one-third the number of renewals in January and November as it has in April. Tables 4.3 and 4.4 contain data on the renewal volumes at ICBC and SGI, respectively.

If the expiry were tied to birth month, the pattern would correspond closely to drivers license renewals: between 7 percent and 9 percent of licenses are renewed every month. This method clearly has the greatest potential to produce the most even distribution of renewal volumes over the year. It would also permit most driver and vehicle registrations to be processed in the same mail-outs.

An equally important question is how the transition would be made to new expiry dates. In principle, it should cause little inconvenience for both the policyholder and the corporation. It is probable, though, that the motorist would have to renew for a new 12 month period in advance of when he or she would otherwise have done so.

Consider the transitional consequences of choosing the birth month method: during the transition year an owner born in August would probably renew vehicle insurance on March 1 as usual. In August, the driver would likely renew again, with a September 1 effective date, for a 12 month term. At this time, the driver would be given a credit for the March 1 payment equal to the amount of premium that has not been earned; six months, or one half of the premium would be rebated. Then the driver would pay, net of the rebate and presuming no rate increase, an additional half the annual premium.

Alternatively, the corporation might require the driver to pay initially on March 1 only that portion of the premium required to cover the period March 1 to September 1. On September 1, the driver would then pay for a full year of coverage. See Table 4.5 for a presentation of both transitions.

D. AGENTS' CONCERN ABOUT CHANGES IN RENEWALS

In his report on the Autopac distribution system, the commission's consultant identified a number of concerns that individual agents have about a transition to staggered renewals.

If policies expired on the birthdates of vehicle owners, many Manitoba motorists would have to pay both their driver license premiums and vehicle premiums in the same month. Agents believe that this could cause undue financial hardship since both renewals would have to be financed at the same time. This impact would be softened by the time payment option.

Agents located in communities where the DDVL has offices have no authority to issue drivers licenses. These agents are concerned they would lose business since a policyholder could acquire his or her drivers licence as well as vehicle registration and insurance from the DDVL branch but could acquire only vehicle registration and insurance from an agency. Other agents seem less worried; they contend that they have taken business away steadily from DDVL due to their insurance expertise and quality of services. Other policyholders might begin to renew their vehicle registrations and insurance by mail as they do now with their drivers license. All matters considered, I believe agents have a legitimate concern. The potential for them to lose market share to DDVL is clear if Autopac renewals were keyed to birthdates. Therefore, I propose, if this option were adopted, that agents in communities with DDVL offices should be given authority to process renewals of drivers licences.

In an editorial dated March 27, the Winnipeg Free Press offers the opinion that, if renewals were staggered by birth month, DDVL could handle the whole workload. The editorial recommends that agents' commission costs be saved by prohibiting them from selling Autopac in any community served directly by DDVL. I earlier alluded to the government's original commitment to give agents a major role in the Autopac system. I believe the proposal made by the editorial staff of the Free Press would violate that undertaking. On the other hand, if agents were to process more renewals, the workload at DDVL could decline. Although this consequence is by no means assured, I assume that a commitment would be made to accommodate any staff redundancies just as measures were taken to protect the positions of agents when Autopac was introduced in 1971.

Recommendation No. 4.06: That, if the birth month becomes the determining factor for renewal of insurance coverage and vehicle registration, authority be granted to Autopac agents to validate drivers licenses in centres where there are division of driver and vehicle licensing offices, as well as where there are none, as at present.

Recommendation No. 4.07: That the government of Manitoba should guarantee jobs for of the division of driver and vehicle licensing staff, made redundant by these proposed changes.

Agents are also concerned that if birthdate renewals were adopted, the change would be made in one year. They believe that this might not allow sufficient time for a smooth transition. It is unclear why this is a problem, and also why the change would necessarily occur in one year. In any event, I believe both the corporation and the registrar of motor vehicles and his staff are capable of planning for a practical and efficient transition.

Finally, agents fear that a staggered renewal system will create 12 month-end rush periods instead of the current single year-end rush period. They believe that they may not be able to find or retain trained staff who are willing to work only several days each month. One remedy is that renewals be allowed on all the business days in the year rather than on 12 expiry dates at the end of each month. Insurance would expire on the policyholder's birthday instead of the end of the policyholder's month of birth. Because it is uncertain whether this would solve or exacerbate the problem, I propose only that MPIC evaluate this proposal.

Recommendation No. 4.08: That MPIC conduct and publish a study, by not later than December 31, 1989, regarding the merits and costs of birthdate renewals.

V. SUMMARY OF MAIN CONCLUSIONS

The commission concludes that:

- There is no apparent justification for the establishment of the Manitoba department of highways as a commissioned agent.
- The current agency system serves the consumer needs of Manitobans well.
- Autopac agency incomes have more than kept pace with the cost of living (on average and in total) over the last ten years.
- Flat fees would be a fairer approach than commissions for the compulsory basic portion of Autopac.
- The corporation provides a more advantageous time payment plan to its commercial policy holders then for other policy holders.

- There is a need for a continued time payment plan.

- The corporation would benefit from a system of staggered renewals to allow for more automation and to stabilize the corporation's premium float.

- Adoption of a staggered renewal system, if it is matched to the birth month of the registered owner, could damage an agent's market share if he or she did not have the authority, also, to validate the drivers licence which was due at the same time.

VI. RECOMMENDATIONS

Recommendation No. 4.01: That, effective insurance year 1989, the agency currently operated by the Manitoba department of highways be decommissioned if the department is unwilling to waive the commission it now receives. (Page 4)

Recommendation No. 4.02: That a carefully controlled network of commissioned agents continue to be the major distribution channel for Autopac policyholder services. (Page 6).

Recommendation No. 4.03: That, effective not later than insurance year 1990, Autopac agents be compensated by means of:

- A schedule of fixed fees for assisting in the writing and administering of basic Autopac insurance.

- Percentage commissions for assisting in the writing and administering of extension Autopac insurance.

And, further, that MPIC consult regularly about changes in agents' compensation with the Insurance Brokers' Association. (Page 10)

Recommendation No. 4.04: That, effective not later than insurance year 1990, MPIC modify its time payment plans so as to make them similar in financial effect for different classes of vehicles, and so as to charge an administrative fee that compensates the corporation for its administrative costs; and that MPIC study how and whether,

- its time payment plans can account in a simple fashion for the investment income foregone by MPIC,
- the time payment plans for all vehicles, except where impractical, vehicles should be adjusted to allow for a 25 percent initial payment, followed by three equal quarterly payments, with participants identified by a special sticker. (Page 15)

Recommendation No. 4.05: That, effective not later than insurance year 1991, MPIC convert to a system of policy renewals throughout the year in order to facilitate automation and to earn more income on the Autopac premium float. (Page 19)

Recommendation No. 4.06: That, if the birth month becomes the determining factor for renewal of insurance coverage and vehicle registration, authority be granted to Autopac agents to validate drivers licenses in centres where there are division of driver and vehicle licensing offices, as well as where there are none, as at present. (Page 22)

Recommendation No. 4.07: That the government of Manitoba should guarantee jobs for of the division of driver and vehicle licensing staff, made redundant by these proposed changes. (Page 22)

Recommendation No. 4.08: That MPIC conduct and publish a study, by not later than December 31, 1989, regarding the merits and costs of birthdate renewals. (Page 23)

TABLE 4.1

AUTOPAC REVIEW COMMISSION

Agent's Commission Paid By MPIC

1977 to 1987

Year	Average Total Commission Per Agency	% Change from Prior Year	Average Commission Per Trans. (ex. refunds)	% Change from Prior Year	Consumer Price Index (Winnipeg)	% Change from Prior Year
1987	$35,805	14.6	$13.14	11.3	321.8	4.2
1986	$31,238	9.6	$11.81	6.6	308.8	4.5
1985	$28,512	9.0	$11.08	0.4	295.6	4.2
1984	$26,152	10.7	$11.03	6.2	283.8	3.6
1983	$23,627	7.4	$10.39	3.4	273.9	6.7
1982	$22,002	5.2	$10.05	1.9	256.7	8.8
1981	$20,922	17.6	$ 9.86	19.5	235.9	11.1
1980	$17,786	9.9	$ 8.25	10.3	212.3	10.0
1979	$16,188	8.6	$ 7.48	7.0	193.0	9.1
1978	$14,904	9.6	$ 6.99	6.9	176.9	8.5
1977	$13,595		$ 6.54		163.0	
10 Year Change	$22,210	163.4	$ 6.60	+100.9	158.8	+97.4
Average Change Per Year	$ 2,221	10.2	$ 0.66	+7.2	15.9	+7.04

Source: Wiebe & Associates

TABLE 4.2

AUTOPAC REVIEW COMMISSION

MPIC Time Payment Plan Statistics

1981 to 1988

YEAR	(A) NUMBER OF CONSUMERS USING TIME PAYMENTS	(B) SERVICE CHARGE PER VEHICLE	(C) PERCENTAGE OF ALL CONSUMERS USING PLAN	(D) DOLLAR VOLUME OF TIME PYMTS	(E) AVERAGE $ VALUE OF AMOUNT FINANCED (D)÷(A)=(E)	(F) IMPLICIT AVERAGE ANNUALIZED INTEREST RATE
(To March 15 1988)	189,840	$10.00	N/A	$45,825,305	$241.39	11.7%
1987	108,037	$10.00	31.8%	41,074,739	197.44	21.6%
1986	193,502	$10.00	30.3%	34,428,075	177.92	24.2%
1985	187,462	$ 8.00	29.4%	32,040,889	170.92	19.9%
1984	178,212	$ 8.00	29.4%	30,081,183	168.79	20.2%
1983	161,683	$ 8.00	27.3%	26,249,903	162.35	21.0%
1982	156,648	$ 8.00	26.4%	24,112,155	153.93	22.2%
1981	153,508	$ 6.00	27.0%	21,814,754	142.11	17.9%

(F) For 1981-1987

$$\frac{(B)}{(E-B) \times \frac{90}{365}} \times 100 = \text{Annualized Interest Rate}$$

For 1988

$$\frac{(B)}{(E-B) \times \frac{90}{365} + \frac{(E-B)}{2} \times \frac{90}{365}} \times 100 = \text{Annualized Interest Rate}$$

The above calculations take into account the fact that consumers pay the interest (service fee) in advance while normally interest is added after the period financed.

Note The implicit average annual interest rate is not actually an indication of the return on money outstanding to the corporation since the time payment plan adds considerably to the administrative costs of MPIC.

TABLE 4.3

AUTOPAC REVIEW COMMISSION

Insurance Corporation of British Columbia - Renewals 1987

MONTH	PERCENTAGE OF ANNUAL VEHICLE RENEWALS	PERCENTAGE OF NEW ANNUAL REGISTRATIONS
January	4%	5%
February	5%	7%
March	30%	9%
April	8%	10%
May	8%	13%
June	9%	11%
July	8%	10%
August	7%	9%
September	6%	8%
October	6%	8%
November	5%	6%
December	4%	4%
	100%	100%

TABLE 4.4

AUTOPAC REVIEW COMMISSION

Saskatchewan Government Insurance Organization - Renewals 1987

MONTH	PERCENTAGE OF VEHICLES RENEWED
January	5%
February	8%
March	11%
April	15%
May	11%
June	10%
July	8%
August	7%
September	7%
October	6%
November	5%
December	7%
	100%

TABLE: 4.5

AUTOPAC REVIEW COMMISSION

Premium Payment if Current Coverage is Replaced

Renewal Date	Term of Coverage	Premium
March 1	Year 1	$600
September 1	Part of Year 2	$300
September 1	Year 3	$600
September 1	Year 4	$600

Total		$2,100

TABLE: 4.6

AUTOPAC REVIEW COMMISSION

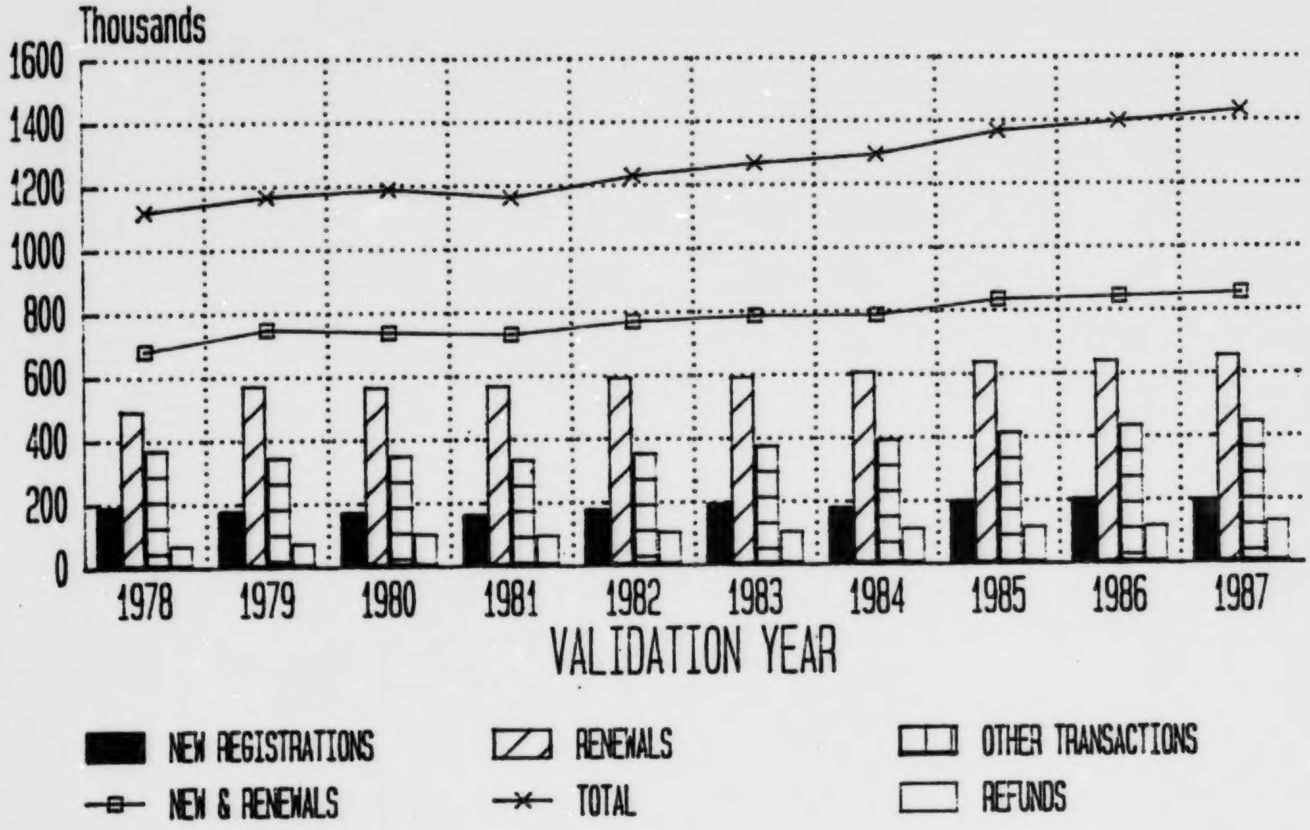
Premium Payments if Adjusted for Initial Partial Term

Renewal Date	Term of Coverage	Premium
March 1	Part of Year 1	$300
September 1	Year 2	$600
September 1	Year 3	$600
September 1	Year 4	$600

Total		$2,100

FIGURE 4.1

AGENTS' TRANSACTION VOLUMES
COMMISSIONED AND NON-COMMISSIONED

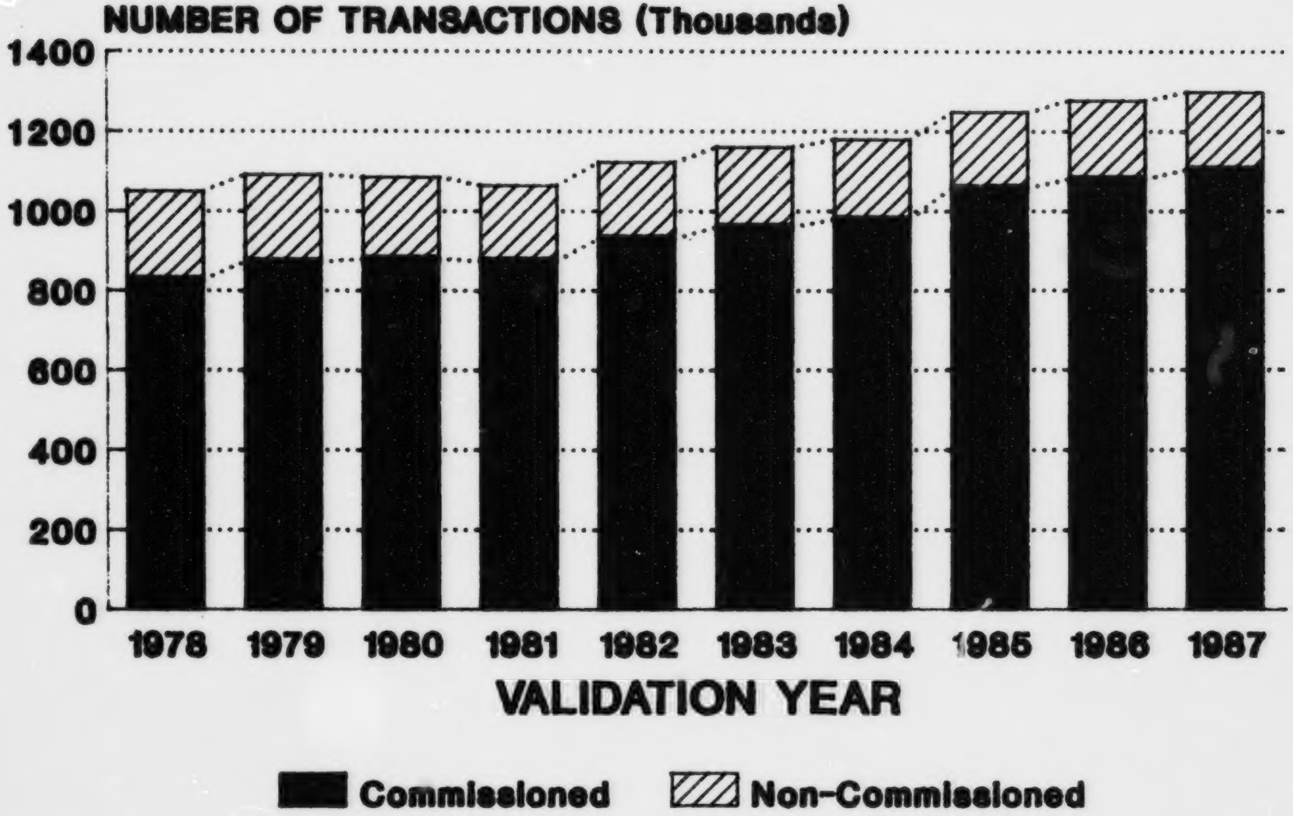


SOURCE: WIEBE & MPIC

FIGURE 4.2

AGENTS' TRANSACTION VOLUMES

NEW + RENEWAL + OTHER

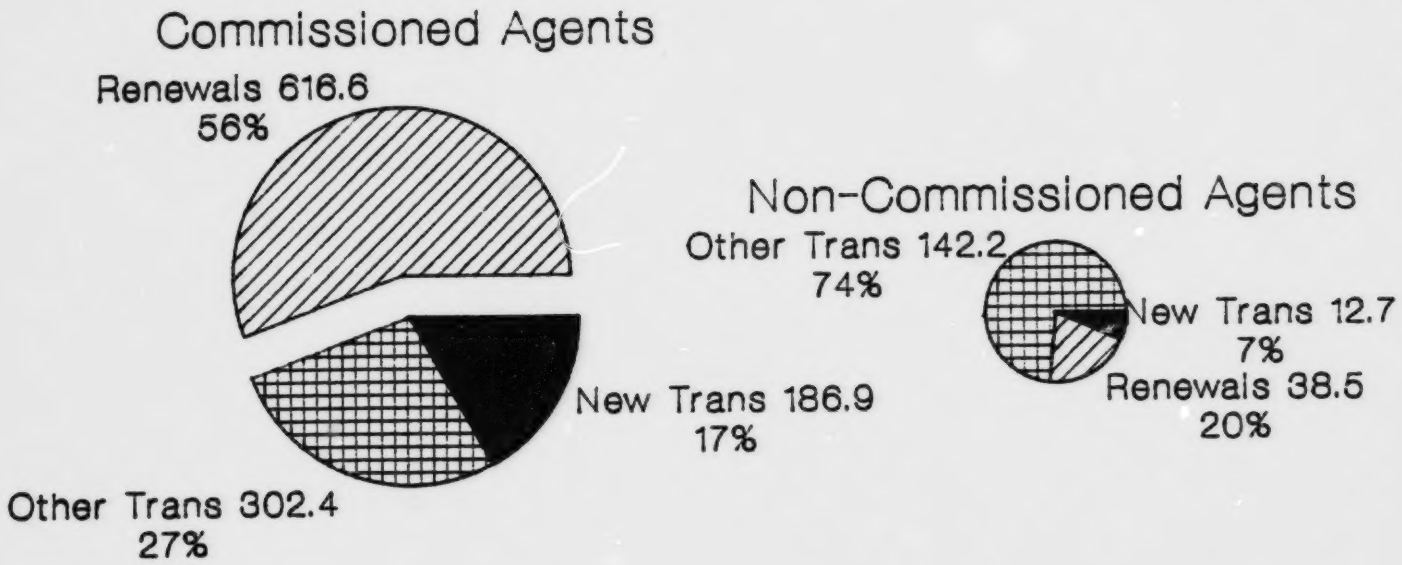


SOURCE: WIEBE & MPIC

FIGURE 4.3

AGENTS' TRANSACTION VOLUMES, 1987 (000)

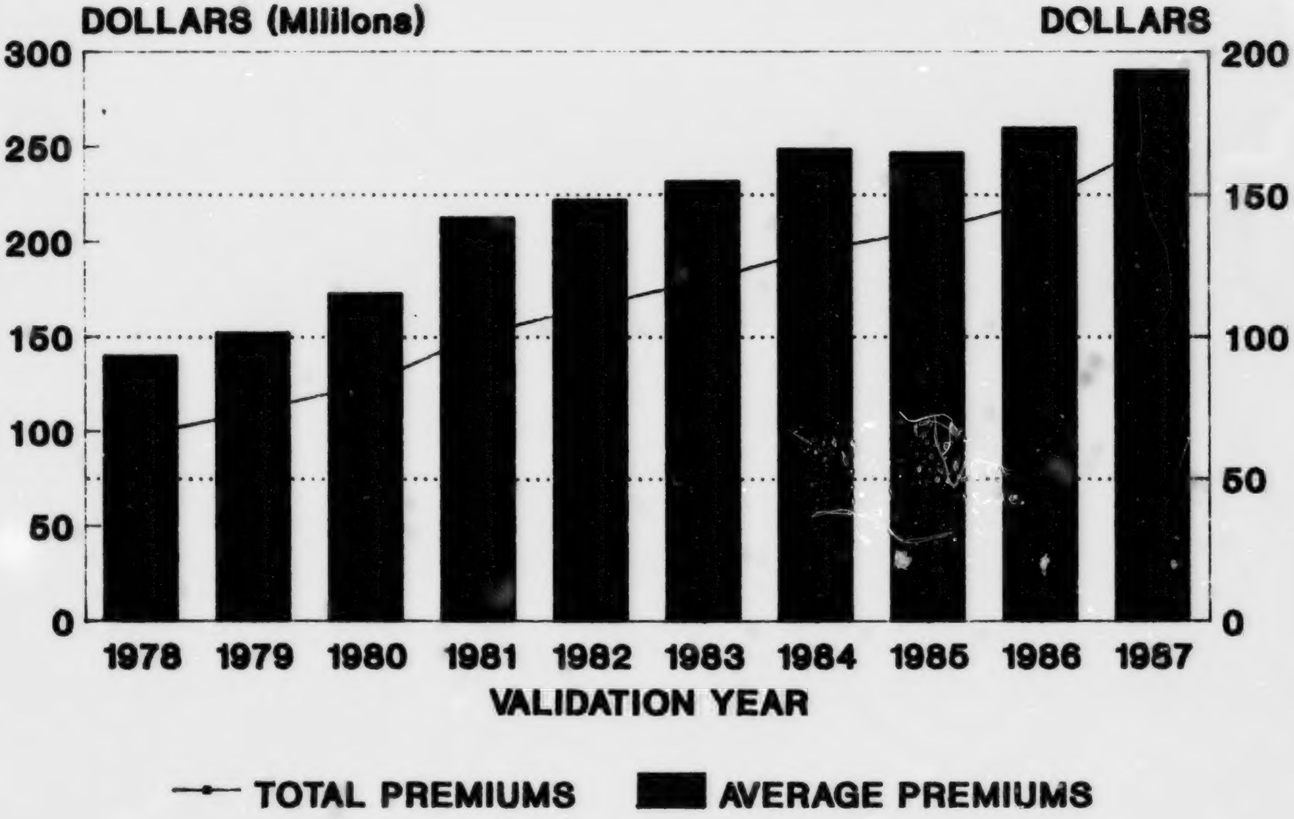
Type of Transaction by Type of Agent



Source: WIEBE & MPIC

FIGURE 4.4

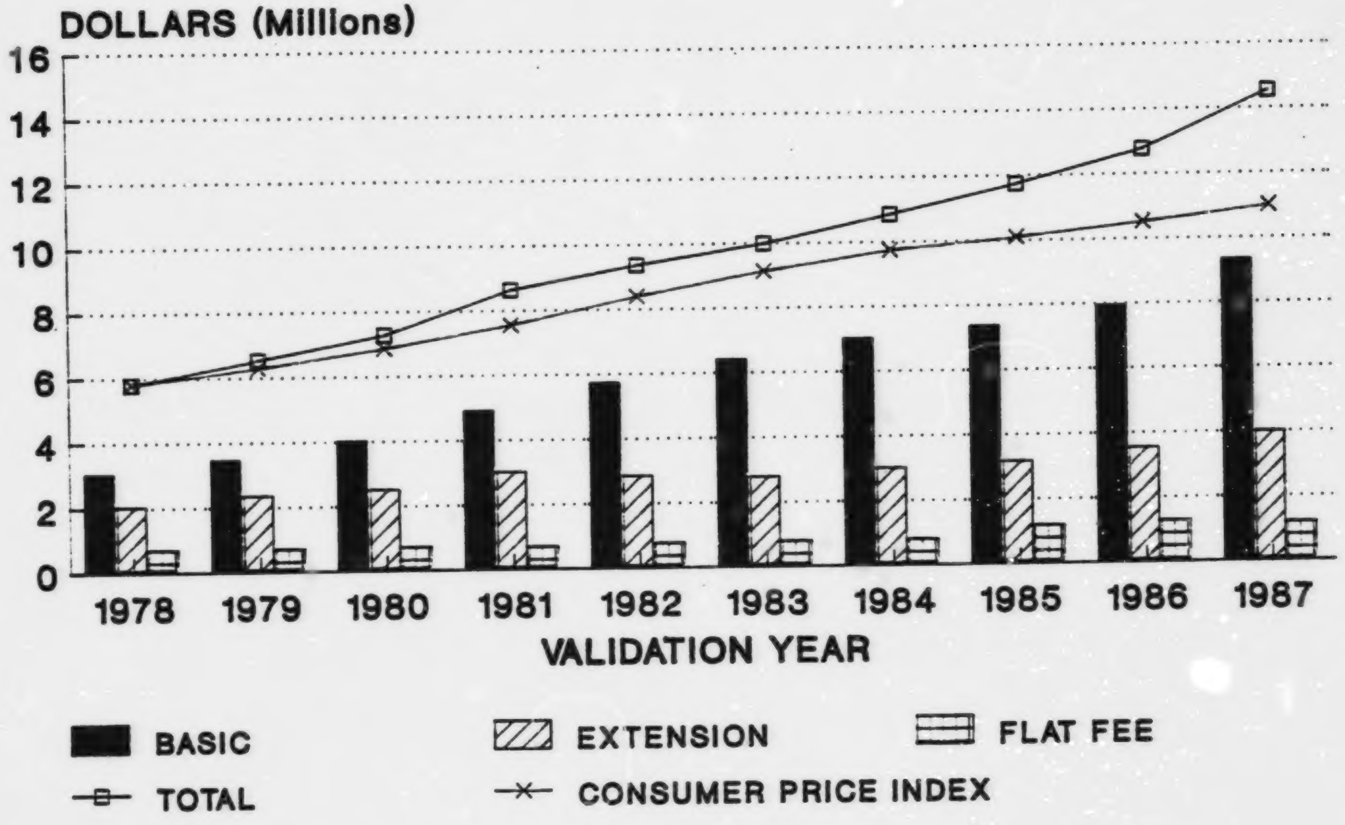
AGENTS' PREMIUMS PROCESSED
TOTAL & AVERAGE/TRANSACTION



SOURCE: WIEBE & MPIC

FIGURE 4.5

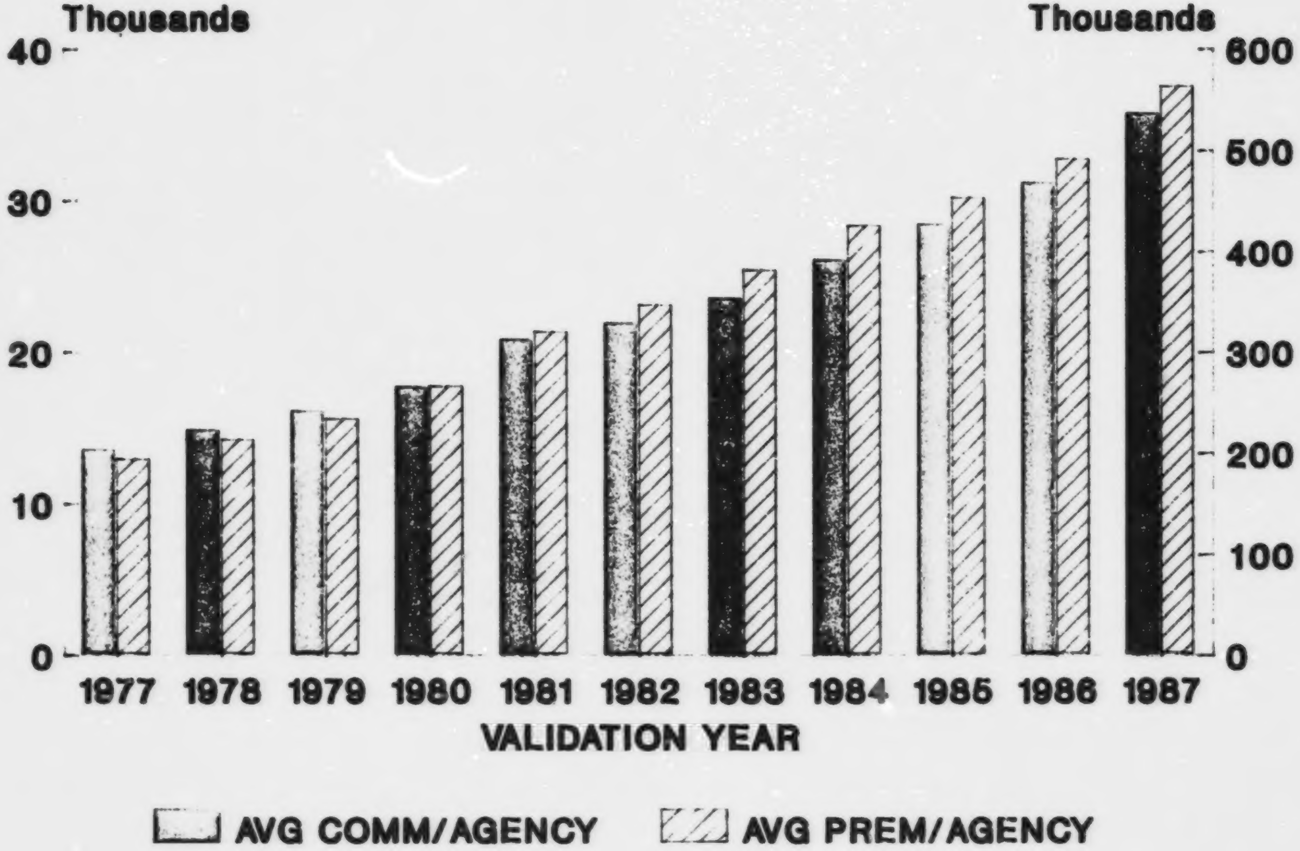
AGENTS' COMMISSIONS
BASIC, EXTENSION & FLAT FEE



SOURCE: WIEBE & MPIC

FIGURE 4.6

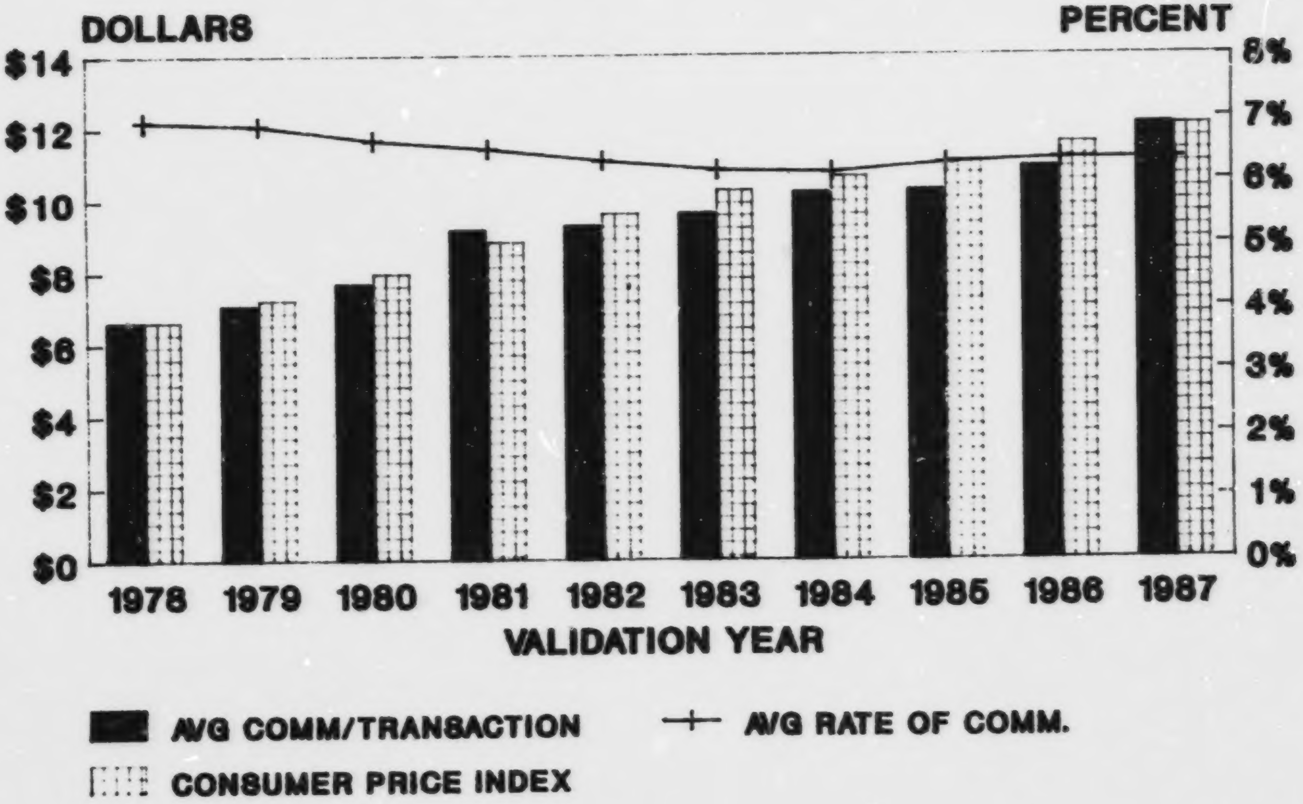
CHANGES IN AGENCY COMMISSIONS & PREMIUMS
FOR COMMISSIONED AGENTS



SOURCE: WIEBE & MPIC

FIGURE 4.7

AGENTS' COMMISSION
COMMISSIONS/TRANSACTION & RATE



SOURCE: WIEBE & MPIC

AUTOPAC REVIEW COMMISSION

POSITION PAPER NO. 5

IMPROVING THE EFFICIENCY AND QUALITY OF VEHICLE REPAIRS

Submitted to: Honourable Glen Cummings

Submitted by: Judge Robert Kopstein

AUTOPAC REVIEW COMMISSION

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I. INTRODUCTION

The commission undertook a separate study of vehicle repairs insured under Autopac. Vehicle damage and repairs are important both financially and economically. In the fiscal year ending October 31, 1987, The Manitoba Public Insurance Corporation (MPIC) spent $171 million on vehicle repairs. Approximately one-half of this amount was made up of labour charges. Assuming an average charge-out rate of $33 an hour, this translates to the equivalent of more than 1,700 person-years of employment. It represents only employees of private automotive trade businesses whose time is charged to MPIC. There are many others whose time does not so appear: counter staff, parts workers, delivery drivers, tow truck operators and others. Thus, the livelihood of many Manitobans depends upon income earned by carrying out repairs that are financed by MPIC.

Members of the automotive trade and of the general public hold contrary views. Automotive trade representatives contend that MPIC compensates them inadequately for their work due to unrealistically low rates. MPIC is perceived as being autocratic. The discussions that take place between representatives of the corporation and the automotive trade do not seem in their estimation to be fair negotiations. Moreover, they believe that the political benefits that accrue from low labour rates weaken their bargaining position.

Members of the general public frequently hold the opposite view. I received both verbal and written submissions in which the opinion was expressed that MPIC was paying too much for repairs. The automotive trades were depicted as taking advantages of the corporation by carrying out unnecessary work and charging too much.

The commission assessed current repair practices. It also examined MPIC's relationship to the automotive trade and opportunities to strengthen it.

II. PERSPECTIVE ON COSTS AND TRENDS

MPIC's costs in financing vehicle repairs have been the main contributor to increased requirements for premiums in terms of absolute dollars. However, bodily injury and death claims have risen far more sharply. Since 1984, repair costs have increased 45 percent ($120 million to $170 million) while bodily injury costs have increased 100 percent ($40 million to $80 million). Vehicle damage claims continue to be MPIC's major cost in providing automobile insurance. Moreover, vehicle damage claims are by far the most frequent type of claim. With the exception of renewals, they are the main cause of contact between policyholders and the corporation. Therefore, MPIC's vehicle repair practices exert a major influence upon policyholder attitudes about Autopac.

Because Manitobans expressed to me concern that MPIC may not be getting full value from the vehicle repairs it finances, it was important for the commission to create a factual context for assessing the corporation's practices. The commission retained the management consulting firm of Woods Gordon to examine the corporation's experience in financing and controlling vehicle repairs. Throughout this report, I draw extensively upon their findings.

III. ESTIMATING POLICIES AND PROCEDURES

Fair, not excessive labour charges are the key to reasonable control of vehicle repair costs. The major cost in vehicle repairs is the schedule of hourly rates that are paid. More contentious are the methods used to determine the amount of chargeable labour time and appropriate prices for parts.

A. ROLE OF CLAIMS CENTRES

Almost all of MPIC's repair estimating is done by staff of drive-in claims centres. A more detailed discussion of the operation of the claims centres is found in Position Paper No. 6, Strengthening Claims Services.

The fundamental question here is whether or not an insurance corporation should be estimating damage at all. One alternative would be to require that policyholders take their vehicles to a specified number of repair shops, three being most commonly proposed, to obtain damage estimates. The insurance adjuster would then review the estimates and decide where vehicles would be repaired. Normally, the work would be assigned to repair shops providing the lowest quotes. MPIC opposes this approach for the following reasons:

- Greater inconvenience for policyholders.
- The added cost of towing inoperable vehicles from shop to shop for estimates.
- The increased responsibility that would be placed upon MPIC to select the repair shop, a choice MPIC prefers claimants to make.
- The potential for suspicion that quality would be sacrificed.
- Increased risk that competitive pressures may cause some repair shops to sacrifice quality and safety in a bid to reduce their costs and win business.

Another method is prescription by the MPIC of preferred repair establishments which would operate under contract with MPIC.

In its research for the commission, Woods Gordon describe the novel system adopted by Co-operators Insurance Services:

> "Co-operators provides a vehicle inspection service in which the insured vehicle owner is directed to a 'Quality Approved Repairer'. Each of these repair shops has previously demonstrated to the insurer that, among other qualifications, it provides acceptable quality of service, business integrity, employs qualified technicians, keeps up with repair technology and provides full guarantees. Quality Approved Repairers are expected to be 'leaders' in the industry and tend to be larger independents and dealerships which repair the vehicles they sell. As well, they are required to perform all safety related repairs and not sublet any frame, mechanical and wheel alignment work. Because of this 'relationship of trust' the repair shop can proceed to order parts and start repairs after photographing the damage without the need for a prior appraisal from the insurer.
>
> "During repairs to the vehicle, a district appraiser, to whom the repair shop is assigned, will visit the shop to inspect the vehicle at least once while repairs are in progress. During this visit the company appraiser inspects the vehicle while under repair, checks for any safety problems, checks the repairer's estimate, checks supplier invoices and inspects completed repairs.
>
> "Because of the lack of a prior estimate, this procedure requires appraisers to inspect all vehicles in their districts to ensure the repair work performed is necessary and of an acceptable quality. To control repair costs, the company relies upon a cost management information system which records specific details of every repair. This system reports average costs by repairer for each component of the repair job, allowing the company appraiser to identify any repairer who deviates from expected cost levels. To protect his status as an approved shop, the repairer must ensure his prices are competitive with other repairers.
>
> "The company also uses the average cost measures provided by the cost information system to evaluate performance and exercise control over company appraisers and district offices. In addition to repair costs, the cost management information system analyzes total loss settlements, loss of use payments, salvage net of recovery, towing costs paid out and any storage costs."[1]

---

[1] Woods-Gordon Vehicle Repairs, pp.51 and 52

The "quality approved repairer" system may offer benefits to the corporation. But, MPIC would be required, firstly, to undertake a detailed assessment of advantages and disadvantages, and its impact on the repair industry. For a private company to use this approach is one thing, since repair establishments perform work that is covered by many insurance companies. If one insurer chooses not to use a particular bodyshop, that repair firm will still have the opportunity to seek repair business through other insurers. Because MPIC is, indirectly, the major consumer of repair services, it would have too great a power to decide who shall and who shall not be in the repair business. Conversely, if MPIC were to continue to finance repairs made by almost all repair establishments, it would be unable to maintain the relationship upon which the Co-operators system depends.

There is no clear evidence of substantial benefit to MPIC if it were to abandon damage estimating. Marginal savings, even if possible, would be unlikely to be sufficient to offset added inconvenience for policyholders or the potential for lower quality repairs. I cannot therefore, recommend a return to the pre-Autopac practice of requiring a number of estimates.

B. FLAT RATE CHARGE-OUT PRACTICE

Flat rate times are standard work times that, when multiplied by an agreed labour rate, determine the labour costs of particular repairs. Based upon industrial engineering studies, comprehensive guides have been created that establish the time periods that specific jobs should require. The most commonly used of these guides is published by Mitchell International Inc. of San Diego. Known as Mitchell Manuals, these contain flat rate times for particular repair operations on both North American and imported automobiles.

There appears to be no consensus on the general question of the use of standardized guides. The repair industry criticizes MPIC and other insurance organizations for abiding only partly by the published standard repair times. Insurers refuse to use standard times when a number of related repairs or operations are required because they argue double counting may occur. For instance, if adjacent parts need replacement, there may be economies in time. The time required to replace two parts at the same location or near the same location on a vehicle, when the same dismantling would be required for a single replacement, should reduce time.

Woods Gordon, commenting on the challenge of automobile loss adjusting in general, said:

> "A considerable amount of experience and skill is required of an estimator to understand the complexity of the relationships between adjacent parts, and how duplicate removal times should be eliminated. Although many experienced adjusters can accomplish this task, the pressures of time in a drive-in claims environment and the lack of such trained personnel and/or turnover due to illness and vacations make it difficult...to maintain this proficiency throughout the entire staff."[2]

It appears that Autopac is conforming to accepted insurance industry practice in the use and selective substitution for published standard repair times. Estimating is not a simple and exact task. The estimator must bring considerable skill and judgement to the process. Failing that skill and judgement, the estimate is likely to be either unfair to the repairer or overly generous.

[2] Woods Gordon, P. 41

C. ASSURING REPAIR QUALITY

In this section, I discuss not the quality of estimating, which is essentially a cost related issue, but rather the quality of subsequent repair work. The quality of repairs must be acceptable in terms of both appearance and safety. Since most policyholders already exercise control over the after-repair appearance of their vehicles, I am more concerned with the adequacy of major hidden repairs that have safety implications, such as the repair of structural sub-assemblies or suspensions.

The commission sought data upon the extent to which unsafe vehicles have contributed to accidents. Based upon MPIC's claims experience, it does not appear that unsafe vehicles are a major cause of accidents. Moreover, the commission was unable to find one case of an accident that could be attributed to poor repair work. Nevertheless, the commission considers the subject of safe vehicle repairs to be important for the following reasons:

- Policyholders are entitled to peace of mind that their vehicles may be operated safely.
- Repair establishments should be on notice that the corporation expects vehicles to be restored to safe running order.

To meet these goals, I propose that MPIC consider the feasibility of establishing a post-repair inspection service. These inspections could either be required for certain types of repairs or offered as a service to policyholders who wish to be reassured that appropriate work was done. In the case of the latter, the corporation could consider assessing the policyholder a fee that would compensate the corporation for its costs. If this were done, I believe that it would be fair for MPIC to waive the fee if the repair work were found to be inadequate.

Recommendation No. 5.01: That Autopac examine the feasibility of offering a free post-repair inspection service on both a compulsory basis in the case of major repairs and an optional basis in respect to other repairs.

D. THE COMPUTER AS AN ESTIMATING TOOL

ADP Collision Estimating Services Inc., of Ann Arbor, Michigan, supplies commercially an automated estimating system. Known as Audatex, this is comprised of three essential features[3]:

- A worksheet for specifying and estimating the value of vehicle repairs.
- An interactive computer system that allows information to be entered from the worksheet by staff at various work or vehicle locations.
- A central computer database maintained at the company's head office.

Damage estimators use a supplied worksheet to specify requirements for repair or work and parts replacement. The data are transmitted by a terminal to a computer containing the Audatex database. The system sends back to the estimator a report of required parts, price information and the standard flat work times for the repair work.

---

[3] See Woods Gordon Vehicle Repairs Review, June 1988 for a fuller description of the system.

An estimate is printed showing parts, labour and materials. These are all fully priced and totalled. Subsequent adjustments may be made easily by changing only the affected fields of information in the computer files and reprinting the report. Audatex provides management information on the estimates processed by the system and shows comparisons to industry data.

MPIC conducted a pilot project with the system but reports no major advantage was gained. The corporation decided not to purchase the system for the following reasons:

- The corporation believed it could achieve the same result by developing its own automated estimating system.
- MPIC considered its own flat rate paint times to be more reasonable than those used for Audatex.
- MPIC believes parts surcharging is currently under control. Thus the main expected benefit of Audatex -- savings through control of surcharges -- was not a sufficient reason to adopt Audatex.
- During the pilot study in 1987, productivity fell in the claim centres due to computer delays; estimators also reported that duplicated work was needed to generate supplemental estimates.
- Rural estimators reported difficulties using remote terminals that required a noise-free telephone connection to the site of the main computer[4] in Michigan.

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[4] Woods Gordon quoting an internal MPIC report:

Although MPIC rejected the Audatex system, it has retained one terminal in Winnipeg for the purpose of spot checking parts prices and controlling unauthorized surcharges.

MPIC's experience with Audatex is not similar to that of other insurers. Evidence revealed that:

- Audatex is a proven system: in the January/February 1984 issue of the Insurance Review, its use is indicated by 22 of the 25 largest automobile insurers in the United States. In Canada, Allstate, State Farm, SGI and the Insurance Bureau of Canada all use the system, apparently with success.[5]
- ICBC uses Audatex as a source of comparative data on car sales prices in settling total loss vehicles claims.
- SGI uses the system extensively and reports that the system has improved estimating accuracy and contributed to greater productivity.
- An insurance company in Ontario reported that the system handled supplemental estimates efficiently, contrary to the reports of duplicated effort by Autopac estimators.
- Audatex users avoid the significant workload needed to update Mitchell manuals.
- The difficulty of using Audatex for paint estimates is no worse than it is now with Mitchell Manuals;

[5] Woods Gordon Vehicle Repairs Review, June 1988

- If MPIC had the Audatex system, it would be in a stronger position to evaluate its own estimating work and, further, to make comparisons to the estimating experience of other organizations.

Of the three publicly-owned vehicle insurance organizations in Canada, MPIC makes little use of Audatex, ICBC uses it somewhat more, and SGI uses it extensively. It can be argued that there are distinguishing factors between public and private users such as the "22 of 25" users reported in the study, and that the case is less strong for the use of Audatex in the case of MPIC. No evidence submitted to the commission however, substantiates that conclusion. Particularly in light of the SGI and ICBC experience I think that MPIC's assumptions and the design of its pilot study may have been flawed. MPIC is now examining the potential value of developing its own computerized parts system. Before embarking on this path, I believe the corporation should arrange for an independent re-evaluation of its pilot study. If this study is found to have been flawed, a new pilot project should be undertaken. While I would not discourage the initiative to develop its own system, it seems to me that a proven system which is available should be considered very carefully before being rejected.

Recommendation No. 5.02: That MPIC retain an independent consultant to assess whether the original Audatex pilot study was properly designed and executed; and further, if the design was defective in any significant way that MPIC conduct a new evaluation of Audatex.

IV. OPPORTUNITIES TO STRENGTHEN VEHICLE REPAIR

I now discuss specific repair questions and the potential for improvements.

A. LABOUR RATES

To determine what is fair and adequate compensation for an entire industry, and those who work in it, one would need to examine in detail the revenues and costs of the individual businesses that make up that industry. For MPIC, this would be the body shops, parts suppliers, towing companies and other enterprises that are doing repair work for MPIC.[6] However, because this detailed information is unavailable, it was necessary for the commission to consider surrogate indicators that allow comparisons to other business indicators or to experience other places.

The commission compared rates of increase in Autopac labour rates to changes in the Consumer Price Index (CPI). In Figure 5.01, the commission's consultant shows that, from March 1981 to April 1987, the combined labour and body shop material rate paid by MPIC rose more quickly than the CPI. In 1987, the rate of increase in labour rates fell slightly below CPI changes. The paint material rate on the other hand has risen faster than the CPI in some years, but not others, with increases lower than the CPI only in 1988 when there has been no increase, even though the CPI rose 4.2 percent.

Another indicator is the rates paid in other jurisdictions. Figure 5.02 shows that, in 1987, six provinces have combined labour and body shop material rates that are lower than Manitoba's while three other provinces have higher rates. The rates range from a low of $27 per hour in Quebec to a high of about $41 in British Columbia. Manitoba's rate, of $35 per hour, is $1 higher than the average. In comparison with the other two property damage public insurers in Canada, namely SGI and ICBC, MPIC's labor rates are $1 less than both. Between MPIC and SGI, the spread is about $4. Between MPIC and ICBC the spread is $6. Those differences must be considered however in the context of the basic deductibles. In Saskatchewan the basic deductible is $500. In B.C., there are various basic deductibles. Manitoba's basic deductible is $350. The lower the compulsory basic deductible, the greater the volume of work which may be expected.

---

[6] Members of the industry have been reluctant to release detailed financial statements to MPIC.

As shown in Figure 5.03, Manitoba's labour rates have risen faster than rates elsewhere but are still comparable to rates of increase in other provinces. Since 1981, the approximate labour rate increases have been: 31 percent in British Columbia, 51 percent in Saskatchewan, 40 percent in Manitoba, 30 percent in Ontario and eight percent in Quebec.

There is nothing in the above data concerning labour rates that would support the view that MPIC's labour rates are unreasonable. I cannot conclude, based on the information received, that the corporation is paying labour rates that are too high or that the industry is being unfairly treated.

B. REPLACEMENT PARTS

Replacement parts account for about half the cost of all repairs. There are three sources of replacement parts. First, there are original equipment manufacturer, or OEM, parts. These are parts distributed by the maker of the car being repaired; they clearly conform to the manufacturer's specifications. Second, there are aftermarket parts. Aftermarket parts are replacement parts distributed by someone other than the original manufacturers. They may in fact be made by an independent parts supplier who produces OEM parts for a vehicle manufacturer under contract. If so, the parts may meet the same specifications but because they are not marketed by the original manufacturer, they may not be accepted under vehicle warranties. Other aftermarket parts are made by independent parts suppliers who copy the parts distributed by car manufacturers. A third source is recycled parts supplied by a salvage dealer who sells a part recovered from a wrecked vehicle for vehicle repair use.

The corporation must determine how much it will draw upon each of these sources of replacement parts. It must also decide what is a fair price and put in place suitable estimating and financial controls.

In addition to price, quality and availability are important issues. Availability can be a problem particularly with recycled parts. The quality of aftermarket parts still seem be an issue that is unresolved, even though both the public and the repair industry have long used and been satisfied with a variety of aftermarket parts. It is unclear to me why aftermarket sheet metal parts, specifically, should not be used at least for older vehicles built with exterior panels that were not fabricated to be rust resistant.

MPIC endorses the exclusive use of either OEM parts or recycled parts. The corporation's rationale for this policy as reported to the commission by Woods Gordon is that:

> " o Aftermarket parts are generally inferior in quality and may result in increased repair time to fit properly, or will rust prematurely, or will increase the risk of future repairs.
>
> o MPIC benefits, indirectly, from aftermarket parts without actually specifying them because of their general impact in driving down OEM parts prices.

> - In return for not specifying the use of aftermarket parts, MPIC officials believe there have been less strenuous efforts by the automotive parts dealers to add surcharges to OEM prices."[7]

Of the automobile insurers interviewed, Woods Gordon found that:

> "All private insurance companies, as well as SGI and ICBC, will specify the use of aftermarket parts when lower in price than OEM parts".

The consultant also reported that substitution practices varied somewhat among the insurers, mostly in regard to vehicles under original warranties.

The potential savings from more extensive use of aftermarket parts may be considerable. Given their widespread acceptance by both the public and the insurance industry throughout North America, I find MPIC's position on aftermarket parts to be unconvincing. If the corporation were correct, I expect the same rationale would apply to other insurers. Minimally, if MPIC chooses to go against the industry trend, it should expend some effort to explain to the public its course of action.

Recommendation No. 5.03: That MPIC re-evaluate its policy of rejecting the use of aftermarket parts.

MPIC does specify the use of recycled parts. Nationally, according to the Insurance Bureau of Canada, an estimated seven percent of the parts used for insured repairs are recycled. This compares with about three percent for MPIC. I see no clear reason to criticize MPIC policy in this regard. Clearly it supports the use of recycled parts. However, MPIC should assess whether the reason for its lower comparative use is due to shortages or to infrequent specification.

[7] Woods Gordon, p. 65

Recommendation No. 5.04: That MPIC assess the reason for its lower use of recycled parts compared to the industry across Canada, and that it increase its use of recycled parts when it is appropriate and possible to do so.

Control of parts prices is a constant challenge for Autopac and other insurance corporations. All insurance organizations try to eliminate the charging of prices in excess of the list prices suggested by manufacturers. MPIC has responded firmly by refusing to accept parts prices which they know to be surcharged. MPIC estimates that undetected parts surcharges cost the corporation an extra $300,000 to $400,000 per annum. Woods Gordon, extrapolating information from a 1987 study, estimates the real figure could be more than $3 million annually.

The commission finds this difference in the estimated costs to MPIC of parts surcharging to be disconcerting. Although MPIC has informed the commission that it recognizes the problem, major steps may be necessary to control it. As a first step, as recommended earlier, re-evaluation of the potential of the Audatex system to discover surcharging practices might be productive.

C. GLASS REPAIR

Windshield claims are a major and growing proportion of all vehicle damage claims. In 1987, windshield replacement and repairs accounted for more than eight percent of the total payments to autobody shops and glass houses. The costs have increased from $6.3 million in the year ending October 31, 1985, to $8.7 million in 1987.

The operator of a windshield repair firm alleged that MPIC often specifies windshield replacement when they could be repaired. MPIC, in its procedures manual, states,

> "When we are contacted by an insured with only minor damage to his windshield, consideration will be given to replacing the break rather than replacing the windshield."[8]

MPIC's procedures certainly provide for repair instead of replacement, although for safety reasons repair is prohibited when the damage is in the driver's line of sight. If a claimant agrees to windshield repair by a qualified glass repairer, MPIC waives the deductible on the damage. If the repair is unsuccessful and the windshield subsequently must be replaced, the insured is then required to pay the normal deductible.

Based upon analysis of a sample of windshield claims, MPIC found that approximately four percent of damaged windshields had been repaired rather than replaced. In Ontario, claims centres operated by the Insurance Bureau of Canada (IBC), specify repairs in approximately one percent of all windshield damage claims. Like MPIC, IBC does not allow windshield damage in the driver's line of sight to be repaired. IBC has argued that a larger proportion of windshields could be repaired and savings realized in claims costs.

Woods Gordon confirms that some private insurers, like MPIC, waive the deductible if the driver agrees to windshield repair instead of replacement. However, unlike MPIC, if the repair is unsuccessful they waive the deductible portion of the cost of a subsequent replacement.

Based upon the evidence, I am not certain that there are major opportunities to reduce Autopac repair costs by promoting much-increased repairing of windshields. If MPIC were to do so, I believe there would be a greater potential for dissatisfaction by claimants.

[8] Woods Gordon, p. 72

Woods Gordon had difficulty confirming that MPIC staff, in accordance with stated policy, provided claimants with a list of all known glass repairers. One staff person, indeed, was unable to provide such a list to the consultant and questioned whether it was corporate policy to do so. The experience of the commission's consultant seems to corroborate the claim of a glass repairer that MPIC adjusters may not even suggest the alternative. Another employee did provide a list but also explained it was inaccurate since not all the listed glass replacement shops do windshield repairs. In my opinion, glass repairs which do not jeopardize safety should be encouraged, though not required.

Recommendation No. 5.05: That MPIC develop a clear policy on when windshield replacement shall be specified for safety reasons; and further, that all estimators and adjusters be so instructed.

Recommendation No. 5.06: That the corporation ensure that all windshield damage claimants be advised of the repair alternative and the potential advantages.

Upon the issue of safety, it may be helpful for MPIC to consult with the registrar of motor vehicles, who is responsible for vehicle safety standards in Manitoba.

D. VEHICLE TOWING

Some operators of towing businesses criticized the corporation for awarding exclusive towing contracts to a single firm in Winnipeg and another in Brandon. They argued the practice unfairly excludes many smaller companies that do not have the capacity to accept responsibility for such large contracts. They also believe that the corporation could lower its towing costs if it drew more evenly upon the capacity of the entire towing industry. The tow truck association proposed that MPIC's current policy be re-examined for the following reasons:

- Other public automobile insurers have decided to depend less on blanket towing contracts.
- Their belief that MPIC is putting too much value on the presumed simplicity of administering few contracts.
- The association's further belief that the business could be divided among more towing companies at no additional cost to the corporation.

Woods Gordon reports the towing contractor must meet minimum equipment requirements set by MPIC including:

- Leasing or owning enough standard duty tow trucks (3.6 tonne capacity) to provide a prompt and efficient service.
- Leasing or owning certain heavy-duty tow trucks (36.3 tonnes and 13.6 tonnes capacity).
- Having access to a truck with a low bed trailer capable of hauling inoperable trucks or other large vehicles.

The towing contractor must also provide a secure compound of a specified size. In Winnipeg, this area is 0.81 hectares (two acres). A garage building is required for secure storage of vehicles that are objects of police investigation. The towing contractor must also meet requirements for liability insurance on all towing vehicles as well as garage liability insurance.

The main questions are whether the current blanket tendering practice is unfair to the industry or if it is uneconomical. In 1987, MPIC paid a stipulated price for towing services in Winnipeg of $875,000. For this sum, MPIC received 25,800 standard tows and 355 heavy duty tows. The average cost per tow was $33.45.

The Insurance Corporation of British Columbia does not tender towing contracts but pays according to a fixed schedule based on the weight of the towed vehicle and the length of the tow. For a tow of 19 kilometers, the average in Winnipeg since 1980, ICBC would have incurred an average expense per tow of $50.71. This is comprised of a flat rate of $33.70 plus $1.35 for every kilometer over 6.4 kilometers.

Saskatchewan Government Insurance negotiates with tow truck operators a separate tow rate schedule for each city. The schedules are comprised of flat rates for tows to the compound or body shops and prescribed charges for the use of dollies or winches. In Regina, the standard charge for a tow from the accident is $19. An extra $20 plus $1.25 per mile is paid if dollies are required. The commission did not have sufficient data to determine the average towing cost in Saskatchewan.

MPIC pays varying amounts in different communities. Outside the areas served by the Brandon and Winnipeg contractors, MPIC maintains separate sets of rates for different regions of the province in the form of a flat rate charge and a towing distance payment. There is an additional flat rate for winching or recovery and extra charges if either a dolly or the assistance of an extra person is needed. Outside the Brandon and Winnipeg contract areas, the current charge for a tow in southern Manitoba is $18 plus 90 cents for every kilometer. For a 19 kilometer tow, MPIC pays a total of

$35.10. The same tow in the north would cost $45.70. These rates have not changed since July of 1986.

The commission could find no evidence that MPIC would save money by distributing the business to more towing companies. In defence of blanket tendering, it was suggested to me that larger priced contracts make it easier for companies to finance the purchase of the more expensive equipment that is required for complex tows. Since the contract is a conditional guarantee of a fixed amount of income over a specified period of time, it reduces the financial risks of investing in this equipment.

Given the divergence of opinion expressed to the commission, I believe it is important that MPIC listen carefully to the concerns of the towing industry and be willing to make reasonable accommodations. While I would prefer a broader distribution of towing business, I am unable to recommend one based upon evidence of probable savings or other benefits. Therefore, I propose only that MPIC monitor the performance of its towing contractors to ensure that a reasonable balance is being maintained between fairness to the industry and the corporation's economic interests.

V. TOTAL LOSS VEHICLES

A. VEHICLE WRITE-OFF PRACTICES

There is a public perception that MPIC writes off many vehicles that could be repaired economically. It seems to me that this perception is based upon a misunderstanding about the market value of older vehicles. As owners we may attribute greater value to our vehicles than the market does. It is upsetting when MPIC informs us that the cost of repairing accident damage exceeds the market replacement value. There is no evidence to suggest that

MPIC's write-off practices differ from those of other automobile insurance organizations. The corporation says that, in fact, cash settlements for the oldest vehicles exceed market replacement prices.

If the corporation consistently were unable to estimate accurately either the cost of repairing such a vehicle or the market value of a comparable replacement vehicle, there would be either too few or too many write-offs. However, since the commission was not provided with any evidence of such discrepancies, I cannot conclude that these errors occur.

Some evidence was received by the commission indicating that MPIC's negotiating practices related to total loss vehicles were deficient. I consider this contention in Position Paper No. 6.

B. RESTORATION OF SEVERELY DAMAGED VEHICLES

A separate issue is the sale by MPIC of unrepairable total loss vehicles. Although MPIC is unable to gather statistics on the number of such vehicles, the corporation believes some are being restored and reregistered. Several major police forces expressed the same opinion to the commission. There is concern that some vehicles are so severely damaged that they should not be allowed back on the road. In other words, they are considered to be beyond repair at any cost.

A number of solutions were proposed. Some argued that vehicles that cannot be repaired should be crushed. Others proposed that only automotive salvage and recycling firms be allowed to purchase the most severely damaged vehicles. This would increase the supply of recycled parts and also help ensure that such vehicles were not returned to the roads. However other individuals defended their right to purchase total loss vehicles from MPIC as a means of securing major parts, such as a motor or transmission, for another similar but roadworthy vehicle. They suggested that an inspection program was all that was needed to ensure that restored vehicles were safe.

There is no obvious solution to the problem. Certainly, there are vehicles that can be safely restored even though it is uneconomical for MPIC to pay. Therefore, I disagree with the suggestion that all "write-offs" be prohibited from the roads. I believe this would be a costly over-reaction. Nor do I support limitation of access to the purchasing of salvage vehicles. Individuals should have the same right to bid as those in the business of salvage or repair.

Recommendation No. 5.07: That the registrar of motor vehicles, in conjunction with MPIC, develop controls to ensure the safe restoration of total loss vehicles and the prohibition of restoration of vehicles that cannot be safely repaired, and further that vehicles deemed "dangerous" to repair be identified and inspected prior to reregistration.

C. DISPOSAL OF TOTAL LOSS VEHICLES

When MPIC writes off a vehicle, the corporation purchases it from the original owner. The management of these acquired assets is important to the corporation, and is becoming even more so. The number of total loss vehicles has increased from 16,832 in 1985 to 23,626 in 1987.

MPIC now offers to sell total loss vehicles back to their owners. If the owner is uninterested, the vehicle is sold at an auction. The corporation has considered and rejected the establishment of its own salvage parts recycling business. The commission's consultant, Woods Gordon, concluded:

> ". . . that the significant costs of establishing the facility, the negative impacts on the private auto wreckers, and the projected lower returns from salvage sales indicated that the facility was not economically justifiable."[9]

The corporation informed me that SGI operates a recycling division that dismantles total loss vehicles. The parts are used either for insured repairs or sold. In 1986, SGI realized higher sales of $955 per total vehicle, than MPIC, which generated sales of $731 per vehicle. However, after expenses, SGI's income of $410 per total loss vehicle was lower than MPIC's which was $677 per vehicle.

I find MPIC practices in disposing of total loss vehicles to be appropriate.

It has been suggested that severely damaged vehicles are being imported to Manitoba and restored. For safety reasons, it was suggested that these be carefully inspected. This would be costly since sophisticated and expensive equipment is needed to check the structural integrity of vehicles. Vehicle owners might have to pay between $100 to $150 for the service. This would be a costly and discriminatory solution to a problem that must be of relatively small proportion, though important in terms of safety. Instead, I propose that MPIC's current safety inspection program be redesigned. What is needed is more effective detection of structural and internal deficiencies. Most motorists and automobile service shop staffs easily find the more obvious deficiencies the current safety program is designed to catch. These include burned-out lightbulbs, loose steering and grabbing brakes. A tougher redesigned inspection program could, instead, be offered more selectively by MPIC. Priority could be assigned to inspection of restored vehicles or used vehicles licenced in Manitoba for the first time.

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[9] Woods Gordon Vehicle Repairs 1988

Recommendation No. 5.08: That the corporation investigate the feasibility of establishing a selective vehicle inspection program for restored vehicles and used vehicles, vehicles seeking registration in Manitoba for the first time, and report the results of the investigation.

VI. RELATIONS BETWEEN MPIC AND THE AUTOMOTIVE TRADE

Autopac policyholders and MPIC depend upon a vehicle repair industry that is economically stable, motivated, qualified and responsive to changing needs. Although many in the industry have complained about the corporation, little evidence was presented to the commission of poor treatment by MPIC. As mentioned earlier, labour rates appear to be reasonable. The number of automobile repair businesses in Manitoba is continuing to grow, an unlikely situation if the industry were unprofitable.

As I have stated in the commission's Position Paper No. 1, the important issue is whether the repair establishments, towing companies and others have adequate recourse if they believe that the corporation is acting fairly. I recommend in that position paper that the Public Utilities Board be empowered to review complaints of unfair or unconscionable treatment by the corporation of its suppliers and that the Board be authorized to make remedial orders or to dismiss complaints that are found without merit.

In Position Paper No. 1 as well, I discussed the fact that the gradual devaluation of the Autopac deductible artificially stimulated increasing demand for insured repair work between 1971 and 1987. The large increase in basic deductible for 1988 is hurting many repair shops due to a sharp drop it caused in the volume of insured repairs. Autopac should avoid similar major adjustments in the future. No benefit is gained by exposing Manitoba businesses to sudden major reductions in revenues. The deductible should have been increased gradually over the past 17 years, not just once in 1988.

The Automotive Trades Association in 1987 retained a consultant to advise the association on its relationship to MPIC. In a report to the association, the consultant criticized the corporation for its apparent indifference to concerns of the association and its members. Assuming the criticism to be valid, the industry's recourse to the Public Utilities Board would provide an avenue of redress.

In the same report the association's consultant raised two other issues. One is the potential for the establishment of an accreditation program for automotive repair establishments. This would depend upon the development by MPIC of repair quality standards and a requirement that only accredited shops perform certain types of repairs, or that accredited shops qualify for higher labour rates than other shops. I believe the corporation should continue its discussions with representatives of the industry about accreditation and its potential benefits for both repair businesses and the corporation.

Recommendation No. 5:09: That, by December 31, 1989, the corporation study shop accreditation in terms of quality assurance and make and publish a decision in principle concerning the issue of shop accreditation.

Recommendation No. 5:10: That, should the decision favour shop accreditation, the task of designing accreditation standards and other details associated with accreditation, be performed with input from the industry, if the industry requests it, and that accreditation be implemented within a time frame agreed to between MPIC and representatives of the industry.

Another issue raised by the association's consultant was the possible introduction of extra billing for automobile repairs. Under this proposal, repair shops would set what they believe to be fair rates and require claimants to pay any difference between their prices and payment allowed by MPIC. I do not consider this proposal to be worthy of serious consideration. A person pays a definite premium to insure himself or herself against the unknown costs of a future accident. Under an insurance plan, extra billing would undermine the security that insurance should bring. Extra billing would precipitate a deterioration of the relationship between MPIC, the public and the repair industry.

VII. SUMMARY OF MAIN CONCLUSIONS

The commission concludes that:

- The corporation's commitment to a claims centre approach is a good one.
- The corporation's use of the Mitchell Manual and its use of exceptions to these manuals is reasonable and within industry norms.
- There is a potential benefit to the corporation in the use of automated estimating that has not been adequately examined.
- Labour rates paid by the corporation appear to be reasonable.
- The corporation makes no use of aftermarket parts to the potential detriment of its total repair costs.
- The corporation uses recycled parts but the use is below that reported by other insurers.
- The corporation is aggressive in its attempts to discourage surcharging on parts pricing but is less successful than it might be with an automated systems approach.

- The corporation's policy with regard to glass replacement and repair, is a reasonable one.
- The commission was not able to substantiate problems with regard to the corporation's towing policy.
- Total loss write-off practices seem to be reasonable from an insurance practice standpoint. Concerns relating to negotiation practices with insureds are discussed in Position Paper No. 6.
- The commission acknowledges a potential safety problem with restoration of seriously damaged vehicles.
- Selling of total loss vehicles at auction or back to the insured appears to be a beneficial approach financially to the disposal of these assets.
- Although I cannot conclude that the corporation treats the automotive trades unfairly.
- Extra billing by repair shops would cause a deterioration of relations between the trades, the corporation and claimants.

VIII. RECOMMENDATIONS

Recommendation No. 5.01: That Autopac examine the feasibility of offering a free post-repair inspection service on both a compulsory basis in the case of major repairs and an optional basis in respect to other repairs. (Page 8)

Recommendation No. 5.02: That MPIC retain an independent consultant to assess whether the original Audatex pilot study was properly designed and executed; and further, if the design was defective in any significant way that MPIC conduct a new evaluation of Audatex. (Page 11)

Recommendation No. 5.03: That MPIC re-evaluate its policy of rejecting the use of aftermarket parts. (Page 15)

Recommendation No. 5.04: That MPIC assess the reason for its lower use of recycled parts compared to the industry across Canada, and that it increase its use of recycled parts when it is appropriate and possible to do so. (Page 16)

Recommendation No. 5.05: That MPIC develop a clear policy on when windshield replacement shall be specified for safety reasons; and further, that all estimators and adjusters be so instructed. (Page 18)

Recommendation No. 5.06: That the corporation ensure that all windshield damage claimants be advised of the repair alternative and the potential advantages. (Page 18)

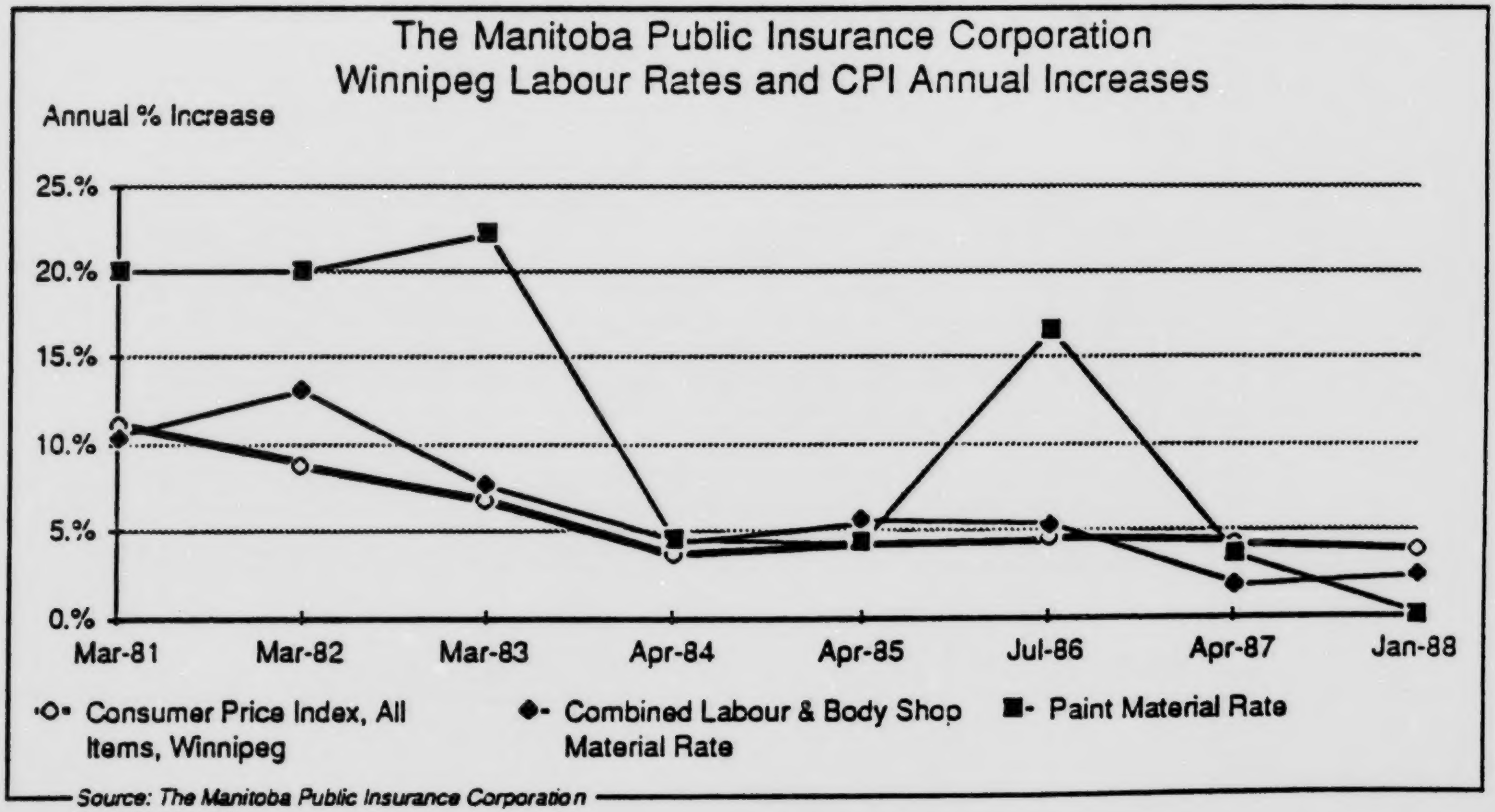
Recommendation No. 5.07: That the registrar of motor vehicles, in conjunction with MPIC, develop controls to ensure the safe restoration of total loss vehicles and the prohibition of restoration of vehicles that cannot be safely repaired, and further that vehicles deemed "dangerous" to repair be identified and inspected prior to re-registration. (Page 23)

Recommendation No. 5.08: That the corporation investigate the feasibility of establishing a selective vehicle inspection program for restored vehicles and used vehicles, vehicles seeking registration in Manitoba for the first time, and report the results of the investigation. (Page 25)

Recommendation No. 5:09: That, by December 31, 1989, the corporation study shop accreditation in terms of quality assurance and publish a decision in principle concerning the issue of shop accreditation. (Page 26)

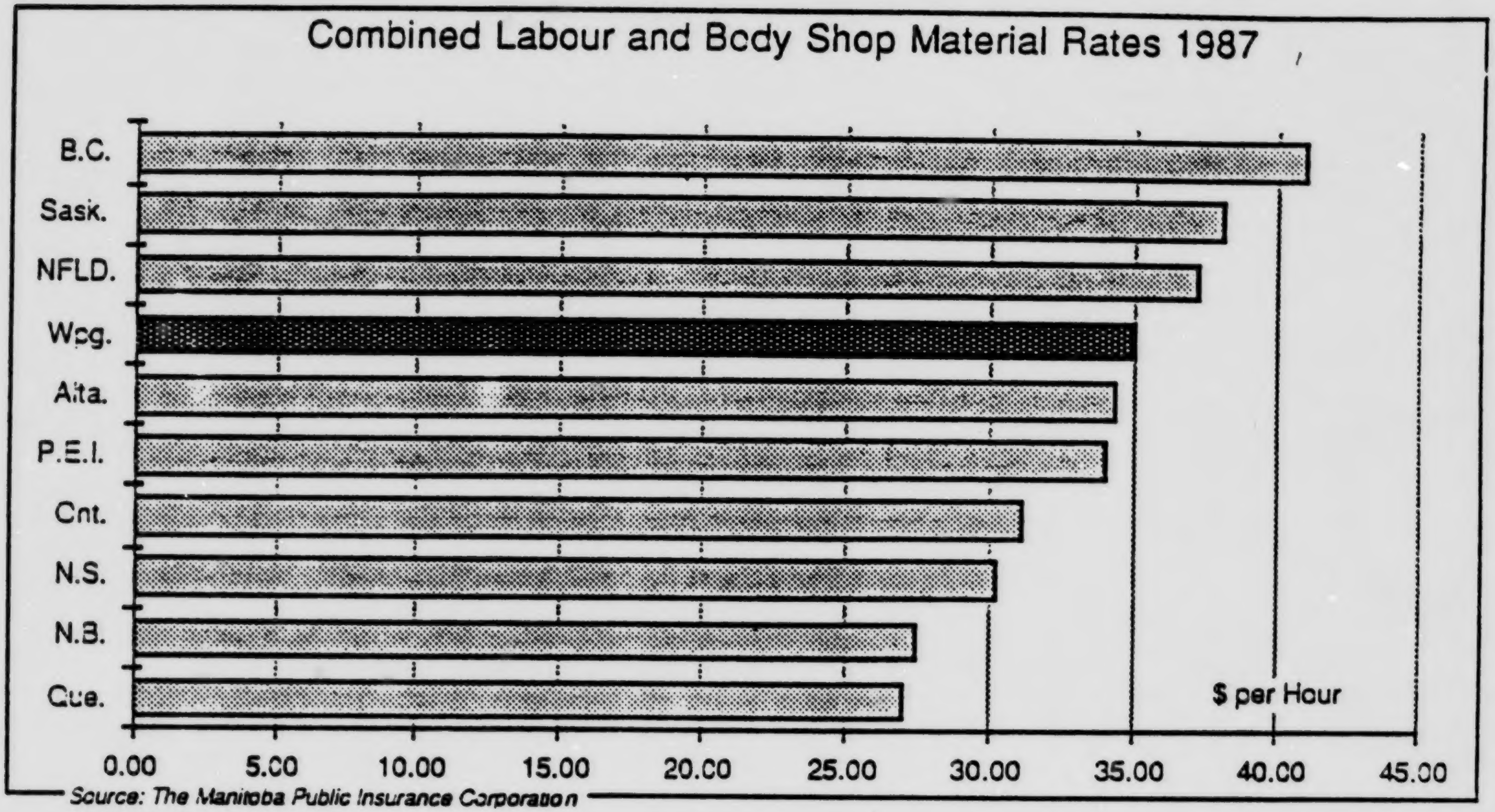
Recommendation No. 5:10: Should the decision favour shop accreditation, that the task of designing accreditation standards and other details associated with accreditation, be performed with input from the industry, if the industry requests it, and that accreditation be implemented within a time frame agreed to between MPIC and representatives of the industry. (Page 26)

FIGURE 5.1


The Manitoba Public Insurance Corporation
Winnipeg Labour Rates and CPI Annual Increases

Source: The Manitoba Public Insurance Corporation
Statistics Canada

FIGURE 5.2

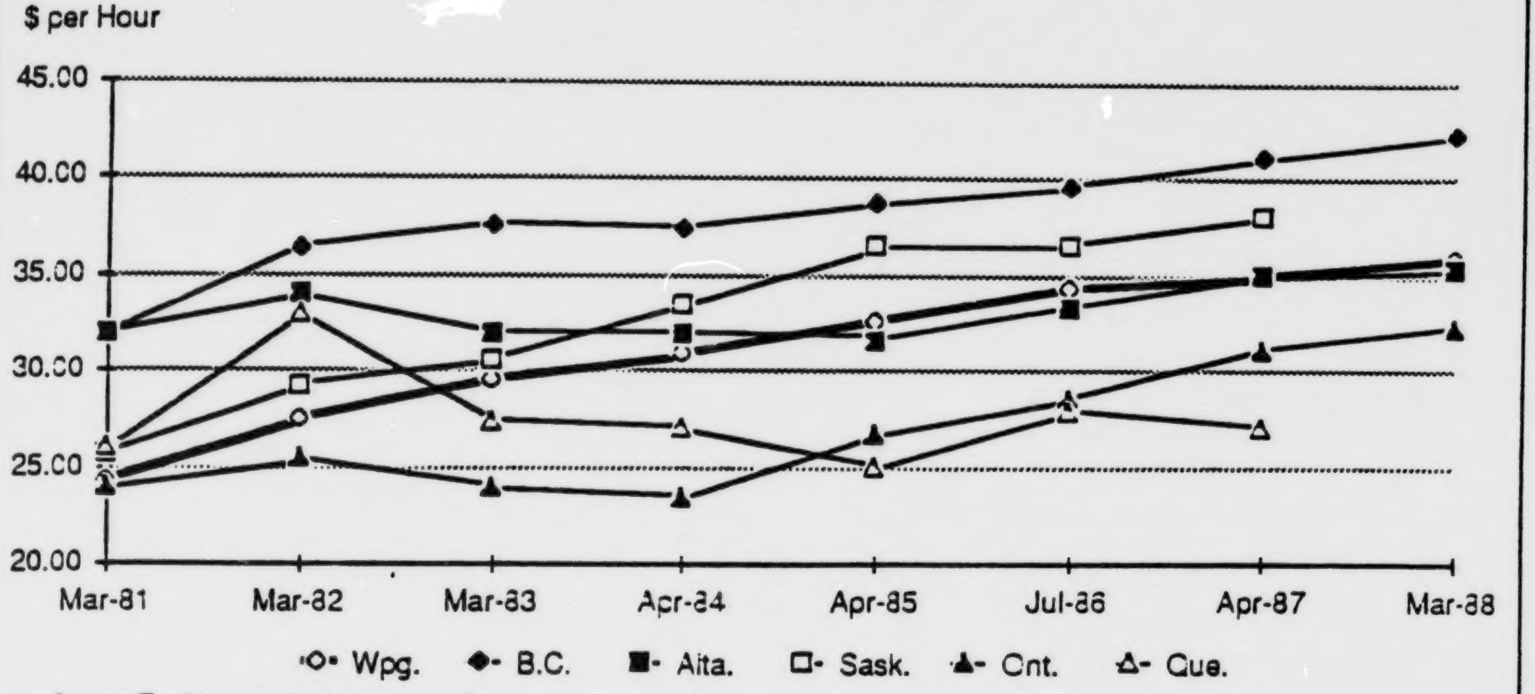


Combined Labour and Body Shop Material Rates 1987

Source: The Manitoba Public Insurance Corporation
Insurance Bureau of Canada

FIGURE 5.3

Combined Labour and Body Material Charge Out Rates (Estimated)
By Province 1981-88



Source: The Manitoba Public Insurance Corporation
Insurance Bureau of Canada

AUTOPAC REVIEW COMMISSION

POSITION PAPER NO. 6

STRENGTHENING CLAIMS SERVICE

Submitted to: Honourable Glen Cummings

Submitted by: Judge Robert Kopstein

AUTOPAC REVIEW COMMISSION

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I. INTRODUCTION

With the exception of a brief encounter with an Autopac agent or an Autopac employee at renewal time, the most common contact time between an insured and The Manitoba Public Insurance Corporation occurs when he or she has the misfortune to make a claim. Because it can be a painful and difficult time for the insured, it is important that treatment be fair and prompt. This position paper will deal briefly with the manner in which the corporation has structured itself to handle claims. It will touch, as well, upon a number of concerns raised in relation to claims.

II. CLAIMS PROCESSING ORGANIZATION

The claims department is the responsibility of a senior manager in the corporation's administrative office in Winnipeg. This executive is responsible for all automobile and general insurance claims operations except those performed by 13 staff members in the corporation's special investigation unit. On May 1, 1988, there were more than 600 employees in the claims department, making it by far the largest department of the corporation.

Most of the corporation's automobile insurance claims services are provided by staff of Autopac claims centres. There are six centres in Winnipeg and seven outside. There are also three sub-offices outside Winnipeg. Itinerant adjusters provide claims services in areas not within convenient reach of a claims centre.

The major advantages of claims centres are:

o The convenience of "dial-a-claim" service -- a system which allows the insured to make an appointment at the centre of his or her choice and submit the initial details over the telephone, thus saving time during a subsequent appointment.

- A drop-in service for those who prefer not to make an appointment.
- A one-stop service for both vehicle damage and bodily injury claims.

Claims centre staff are authorized to process all but the most difficult injury claims. Relatively straightforward claims for accident benefits, as prescribed under Part II of the Autopac regulations, are handled by the claims centres. Claims centres also process third party claims, as provided under Part IV of the regulations, if the following conditions are met:

- Responsibility for the loss can be readily determined.
- The amount of general damages appears to be $2,000, or less.
- The claim can likely be settled in six months.

If the claim cannot be settled in six months, the file is transferred to the bodily injury unit in the corporation's administrative office in downtown Winnipeg.

The bodily injury unit, as its name implies, specializes in the settlement of bodily injury claims. The organization was created in 1975 to develop additional expertise in the handling of injury claims of a serious nature, to standardize bodily injury claims procedures, and to provide more consistent service to claimants.

Another specialized claims group, the special investigation unit (SIU), was established in 1974. MPIC perceived a need for specially trained staff to identify and investigate suspected fraudulent claims. The SIU investigates both Autopac and general insurance claims. However, the commission was informed that almost all of SIU's workload is the investigation of suspicious Autopac claims.

The corporation is currently examining the centralization and automation of the current dial-a-claim system. That enhancement will improve both efficiency of the claims service and its convenience to claimants.

In other position papers, I endorse the use of claims centres. This important aspect of the corporation's business appears to be generally well managed and the interests of both the corporation and claimants to be mostly well served. There are, however, some areas of concern.

III. AREAS OF MAJOR CONCERN

A. TOTAL LOSS VEHICLE CLAIM ADJUSTING

Following an accident, an insured's vehicle will be a total loss or write-off when the estimated cost of repairing the vehicle is greater than its appraised value.

The negotiations begin when the claimant submits a proof of loss form. MPIC then responds, often verbally at first but then in writing, and negotiations commence. MPIC may offer to compensate for sales tax expense or to set a higher salvage value as incentives for claimants to settle. If no agreement is reached, arbitration may be attempted.

If the arbitration is agreed to, the claimant and the corporation each appoint a separate appraiser to act on their respective behalf. The two appraisers then either agree on a settlement proposal or seek the opinion of a third independent appraiser. There are no time constraints upon arbitration.

The ombudsman has criticized MPIC for its adjusting of total vehicle losses. In December, 1987, the ombudsman expressed concerns to MPIC about the arbitration of total loss claims including the initial steps of negotiations with claimants.

There were 20,200 total loss vehicle claims in 1986. Of the 34 which went to arbitration, only three were subject to full arbitration. The relatively small number of arbitrated claims suggests that MPIC is satisfying claimants' expectations. However, the low incidence of arbitration may be disguising some difficulties that have been considered by the ombudsman. The ombudsman reviewed a number of claims for which there had been no requests for arbitration. These are summarized in Table 6.01.

TABLE 6.01

AUTOPAC REVIEW COMMISSION
Arbitration Procedures At MPIC
for Total Losses, Selected by Manitoba's Ombudsman

Case #	Elapsed Time to Settlement	Value of Loss			
		Initial MPIC Offer	Initial Claimant Request	Final Settlement	Difference from MPIC
1	4.5 mos.	$2100	$3800	$2050	$-50plus salvage
2	3.5 mos.	$2300	Not known	$3200	$ +900
3	10.5 mos.	$1600	$2500-3000	$2800	$+1200
4	3 mos.	$4000	$6000	$6400	$+2400
5	8 mos.	$2300+tax	$4000	$3300	$+1000
6	6 mos.	$1800	$3500	$2800 less salvage	$+1000

The ombudsman found a number of problems which are presented in his letter to MPIC. Because these difficulties are stated well, I quote at length from the ombudsman's correspondence:

> "We say this with the understanding that there is no fixed time which appraisers must come to an agreement, nor is there any fixed cost which may be charged by an

appraiser. In addition, many claimants may never have been involved in selecting an appraiser in the past and may not know how to find or to judge whether a person is a competent appraiser.

"It may well be that the reason few disputes go to arbitration is that the process is viewed as oppressive and claimants simply would rather settle for the Corporation's last offer than go through what could be perceived as a lengthy frustrating arbitration process.... In the case of actual cash value disputes, the process of resolving the disputes could in my opinion include procedures clarifying such matters as:

1. How to determine what is relevant in establishing actual cash value such as consideration of gold book price, market research, recent repairs that may effect vehicle value, etc.
2. When negotiations with the adjuster have reached a point where arbitration should be utilized.
3. How to find and appoint a competent appraiser.
4. The responsibility of each party in sharing of relevant information.
5. Time limits to avoid unnecessary delays.

"A lack of procedures would seem to disadvantage the claimants who may not be as knowledgeable as Corporation staff in understanding items that effect vehicle value. Many claimants are not certain at what point further negotiation with the adjuster becomes fruitless and when arbitration should be utilized. In addition, claimants may not have any idea how or where to find a competent appraiser. We are aware of many cases in which claimants appointed friends or relatives to act on their behalf and it has been evident to us that the selection was not based on the person's ability to appraise. Rather, it appeared to us that the claimant felt that the person appointed should be persistent, persuasive and aggressive in arguing for a higher settlement.

"The Corporation on the other hand has a list of appraisers and through its experience with previous arbitrations, it is no doubt aware of the competence of the appraisers appointed. The Corporation's appraiser would likely be knowledgeable in items that effect vehicle value. However, when negotiating with less knowledgeable people who may be presenting irrelevant considerations, the potential for conflict is enhanced with factors such as persistence, persuasiveness and aggressiveness influencing the outcome rather than factors which would effect the actual cash value....

"In total loss situations an insured should be aware at the outset of the factors being considered when determining the actual cash value of the loss. The adjuster, at the initial meeting with the insured to discuss the settlement, should explain the Gold Book values, explain how the value of the vehicle has been affected by high or low mileage, seek information on recent repairs that would affect the vehicle value and have some market comparisons.

"The actual cash value should be worked out with the insured prior to making an offer. The insured would then be clearly aware how the actual cash value has been determined and would be in a much better position to raise valid concerns or to feel satisfied that the Corporation is acting reasonably.

"I would suggest that claimants are not aware that the Corporation's first offer is a starting point for bargaining but rather feel that the Corporation is presenting a valid offer representing what the Corporation is prepared to compensate for the loss.

"Our reviews have shown that the Corporation's first offer has seldom been the final offer and it is usually through the persistence of the insured that further consideration is given to factors which would increase the value. This, in our opinion is establishing a conflict situation at the start.

"This would also assist in preventing claims personnel from 'throwing out offers for negotiation' or 'low balling'. We believe that the actual cash value should be established by use of a worksheet and a copy of the worksheet should be provided to the insured. This worksheet could still recognize a range as established by the Gold Book value and the vehicle's condition, but this range should not exceed perhaps a plus or minus 10%. The requirement to complete the worksheet as soon as possible would avoid the type of negotiations that create delays such as was the case in some of the examples provided in this report.

"When an insured receives the Proof of Loss, the actual cash value worksheet should be attached and the insured would then be in a more knowledgeable position to consider accepting the offer or pursuing the matter further."

The ombudsman's report, in my opinion, reveals an adversarial attitude in the settlement of total loss claims, which is unbecomming a public corporation. A perusal of Table 6.01 illustrates that most of MPIC's original offers were much below the final settlement reached. Assuming that the final settlements represented fair value, surely MPIC adjusters had access through the gold book and other sources as to the range of fair value from the outset. The ombudsman's concerns, as quoted above, were submitted to MPIC in December, 1987. Beyond mere acknowledgement, the corporation had still not replied to the ombudsman until mid-August of 1988, when it provided a partial response, advising that it would need more time to reply to some of the concerns. The reply to the ombudsman, I am advised, was forthcoming only after this commission questioned the corporation about the ombudsman's letter. If the corporation treats the formal inquiry of a public official empowered to make such inquiries with such apparent indifference, how does it treat the concerns of ordinary people?

Recommendation No. 6.01: That the actual cash value worksheet be attached to the proof of loss form provided to a claimant in respect of a total loss vehicle.

Recommendation No. 6.02: That the claimant be made aware in writing from the outset of the factors considered by the corporation in determining the actual cash value of loss, including the use of the gold book and the manner by which value is affected by any other factor considered.

Recommendation No. 6.03: That the office of the provincial ombudsman be empowered specifically to receive and investigate complaints concerning the treatment of claimants in respect of total loss settlements and that MPIC be required to respond to the inquiries of the ombudsman within ten working days of its receipt of a request for information from the ombudsman.

Recommendation No. 6.04: That the provincial ombudsman be empowered to make recommendations to MPIC in any case which has been the subject of review by him or her.

B. APPEAL PROCESS

Claimants dealing with MPIC have a number of different avenues available to them if they believe that the corporation has made an incorrect decision or is treating them unfairly.

Before getting to the need for external appeal, however, there are avenues within the corporation that should be exhausted. Some situations, such as denial of coverage, automatically trigger a review within the corporation. Others occur only at the request of the claimant. It is not difficult for claimants to receive a thorough "in-house" review of their problem. My only concern is, rather, that claimants, some less sophisticated than others, may not know how to pursue this process. Many may not even know that this basic appeal process is available to them.

Recommendation No. 6.05: That Autopac develop and provide to each claimant a clear statement of the avenues of appeal open to him or her concerning decisions made by the corporation.

Claimants wishing to appeal a decision concerning their own vehicle, whether for extent of repair or value if a total loss, have an arbitration procedure available to them. This form of challenge is discussed in a previous section of this position paper. Based upon the ombudsman's comments about the arbitration process, quoted above, it seems to me that the current procedure, while theoretically fair, is, in practice, weighted in favour of the corporation. Many people will not understand the importance of selecting as a representative someone who is knowledgeable concerning the issue to be arbitrated. The corporation selects from a list of persons it knows to be knowledgeable. To enhance fairness, I think that MPIC, with input from representatives of the automotive trades, should prepare a list of persons knowledgeable within the various areas in which disputes might arise and provide that list to a claimant who wishes to consider arbitration.

Recommendation No. 6.06: That MPIC, with assistance from representatives of the automotive trades, develop a list of persons who are knowledgeable concerning the quality of repairs and the evaluation of total-loss vehicles, in order to assist those claimants who may wish to challenge a decision of a corporation official through the arbitration process.

As referred to in the commission's background paper on The Public Concern, I was informed of a situation when, after being told in a form letter that the corporation would abide by the decision of "any competent court", a claimant sued in small claims court for the recovery of a deductible and won. The corporation then proceeded to take the case to a higher court. The claimant was justified in being upset.

Recommendation No. 6.07: That MPIC strive to be honest, forthright and direct in its correspondence with insured persons.

In the background paper on The Public Concern, I also referred to situations in which motorists, under the current system, may be deprived of the opportunity to challenge an adjuster's ruling upon the issue of responsibility for an accident, and when a motorist who could do so does not because of naive misunderstanding of the future consequences of an adjuster's ruling. I refer to that background paper and to recommendation No. 4 therein.

IV. OTHER CONCERNS

A. SPECIAL INVESTIGATIVE UNIT REFERRALS

In the public meetings held by the commission, there was an expression of belief that persons with minor injuries or no injuries were being compensated generously by Autopac. This subject is touched upon in the commission's paper on The Public Concern at page 41. A corporate risk manager retained by the commission, advised that the number of files referred to the special investigations unit is low by industry standards. As a result, it was felt that the potential effectiveness of the unit is compromised.

I am concerned that the corporation place sufficient resources and emphasis upon detection of fradulent claims.

Recommendation No. 6.08: That the corporation examine its assessment of doubtful or questionable claims and consider:

- Revising claims procedures so that the special investigations unit staff may assume greater responsibility for the initial screening of suspicious claims.
- Enhancing of the training of claims centre staff, including their temporary assignment to the special investigations unit, to enable them to more easily identify potential fraud.

- Expanding of the types of cases that are routinely referred to the special investigations unit, including vandalism claims.
- Authorizing special investigations unit staff to conduct audits at claims centre both to identify suspicious claims and to provide training to staff.
- Maintaining, with more consistency, an adequate complement of staff in the special investigations unit.
- Intensifying assessment of the cost effectiveness of special investigations, particularly if the staff unit is expanded.

B. BODILY INJURY FILES HANDLED AT CENTRES

Where liability is not in issue and for the less serious bodily injuries, the claims centres may process bodily injury claims. When the claim is more serious, it must be processed by senior bodily injury claims staff in the corporation's central Winnipeg office. As well, any claim which claims centre staff have the authority to settle, but do not settle for any reason within six months, is re-assigned to the central Winnipeg office.

A commission researcher believes that the processing of bodily injury claims may receive less attention than it should at the claims centres, and that the settlements of bodily injury claims are unnecessarily delayed until the six months elapses when the downtown Winnipeg office takes responsibility for them. The researcher explains this phenomenon in terms of a chemistry of resentment; claims centre staff members may feel that, since senior bodily injury claims officers have greater status within the corporation than they and receive higher salaries, the senior staff should do the work and take responsibility for it. The researcher was concerned about the convenience of motorists.

Senior claims management at MPIC, while not denying the potential for difficulties, believe they have a monitoring system in place that claims centre managers can detect problems and that senior bodily injury claims staff do not report that they must process claims which should have been processed by the claims centre staff. While I have no reason to doubt the statement of senior management, it would be a mistake to discount the opinion of the commission's independent researcher.

Recommendation No. 6.09: That the claims centre management audit a selection of bodily injury claim files at each claims centre to determine whether expeditious efforts are made consistently to settle these claims and, further, that continued steps be taken to monitor progress in settling bodily injury claims to ensure that undue delays are avoided.

C. STAFFING

The commission's researcher found backlogs in claims in both the bodily injury unit and the special investigation unit, but not in the claims centres. This workload imbalance has apparently become even more pronounced with the recent increase in basic Autopac deductible which has caused a substantial drop in vehicle damage claims.

Recommendation No. 6.10: That the corporation defer expansion of its claim centres and assess the potential to reassign claim centre staff positions to the bodily injury unit and the special investigation unit.

V. SUMMARY OF MAIN CONCLUSIONS

The commission concludes that:

- Autopac claims services are generally well managed.
- There appears to be potential to improve the detection of fraudulent claims and reduce their costs.
- There does not appear to be a significant backlog in the handling of vehicle damage claims. However, a backlog remains in bodily injury claims, and in the special investigations unit.
- The corporation has not responded adequately to criticism made by the provincial ombudsman about the adjusting of total loss vehicle claims.
- The corporation does not inform claimants properly when it advises them that MPIC will abide by decisions of a court concerning findings of responsibility for a loss.

VI. RECOMMENDATIONS

Recommendation No. 6.01: That, the actual cash value worksheet be attached to the proof of loss form provided to a claimant in respect of a total loss vehicle. (Page 7)

Recommendation No. 6.02: That the claimant be made aware in writing from the outset of the factors considered by the corporation in determining the actual cash value of a loss, including the use of the gold book and the manner by which value is affected by any other factor considered. (Page 7)

Recommendation No. 6.03: That the office of the provincial ombudsman be empowered specifically to receive and investigate complaints concerning the treatment of claimants in respect of total loss settlements and that MPIC be required to respond to the inquiries of the ombudsman within ten working days of its receipt of a request for information from the ombudsman. (Page 7)

Recommendation No. 6.04: That the provincial ombudsman be empowered to make recommendations to MPIC in any case which has been the subject of review by him or her. (Page 8)

Recommendation No. 6.05: That Autopac develop and provide to each claimant a clear statement of the avenues of appeal open to him or her concerning decisions made by the corporation. (Page 8)

Recommendation No. 6.06: That MPIC, with assistance from representatives of the automotive trades, develop a list of persons who are knowledgeable concerning the quality of repairs and the evaluation of total-loss vehicles, in order to assist those claimants who may wish to challenge a decision of a corporation official through the arbitration process. (Page 9)

Recommendation No. 6.07: That MPIC strive to be honest, forthright and direct in its correspondence with insured persons. (Page 9)

Recommendation No. 6.08: That the corporation examine its assessment of doubtful or questionable claims and consider:

- Revising claims procedures so that the special investigations unit staff may assume greater responsibility for the initial screening of suspicious claims.

- Enhancing the training of claims centre staff including their temporary assignment to the special investigations unit in order to enable them to more easily identify potential fraud.

- Expanding the types of cases that are routinely referred to the special investigations unit, including vandalism claims.

- Authorizing special investigations unit staff to conduct audits at claims centre both to identify suspicious claims and to provide training to staff.

- Maintaining, with more consistency, an adequate complement of staff in the special investigations unit.

- Intensifying assessment of the cost effectiveness of special investigations, particularly if the staff unit is expanded. (Page 10)

Recommendation No. 6.09: That the claims centre management audit a selection of bodily injury claim files at each claims centre to determine whether expeditious efforts are made consistently to settle these claims and, further, that continued steps be taken to monitor progress in settling bodily injury claims to ensure that undue delays are avoided. (Page 12)

Recommendation No. 6.10: That the corporation defer expansion of its claim centres and assess the potential to reassign claim centre staff positions to the bodily injury unit and the special investigation unit. (Page 12)

AUTOPAC REVIEW COMMISSION

POSITION PAPER NO. 7

NEED FOR NEW FINANCIAL POLICIES AND IMPROVED FINANCIAL MANAGEMENT

Submitted to: Honourable Glen Cummings

Submitted by: Judge Robert Kopstein, Commissioner

AUTOPAC REVIEW COMMISSION

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I. INTRODUCTION

> "Since the introduction of a government monopoly in automobile insurance, Manitobans have never been given a true accounting of the cost of Autopac." -- Manitoba Motor League.

This position paper contains my findings respecting MPIC's conduct of its financial affairs. I have examined the following topics: financial controls, financial planning, the processing of financial information as well as investment decisions and reserves.

Financial management is just as important for MPIC, as it is for any insurance organization. However, even if not done well, it will attract little outside attention or comment as it is not a direct policyholder service.

When voicing criticisms, the policyholder is often at a disadvantage because of lack of specific insurance or financial knowledge. It is not surprising, then, that MPIC's detailed financial management practices prompted few criticisms before this commission. Those issues that were raised suggested a taint of financial mismanagement or incomplete reporting rather than specific grievances.

The allegations may, I believe, be summarized as follows:

- Improvident financial practices contributed to MPIC's recorded loss of about $62 million in 1987.

- MPIC had not used actuaries before 1987; this permitted a deteriorating financial situation in preceding years to be misjudged or concealed.

- Autopac lost money on reinsurance or was absorbing reinsurance losses from general insurance.

- The policies requiring MPIC to invest in Manitoba securities reduce investment income, relative to other investment opportunities.

- The accounts for general insurance and Autopac are intermingled, so the profits and losses of the two lines of insurance are hard to ascertain.

- MPIC is over-staffed and has too many levels of managers. This was a general allegation which may or may not have been intended to apply to the finance area.

To assess whether these beliefs were justified or not, the commission:

- Considered written and verbal submissions from concerned Manitobans.

- Commissioned topical reviews by a number of recognized consultants. Deloitte Haskins & Sells investigated financial policies and practices; they had carried out similar work for the Burns Commission in 1979. Coopers & Lybrand conducted research into general financing issues such as surpluses. Professor Terry Hercus examined human resource practices of MPIC, touching upon the financial areas among others. The findings in the consulting reports are not necessarily those of the commission. Where appropriate, I have incorporated the findings into this paper and adopt them as my own. These will be indicated clearly.

- Collected material from insurance trade associations throughout North America.

- Heard submissions by senior MPIC officials who made themselves available for interviews.

II. MANAGEMENT OF FINANCIAL RESOURCES

A. ORGANIZATION OF THE CORPORATE SERVICES AND FINANCE DIVISION

The corporate services and finance division carries out virtually all the actual financial activities of MPIC. Under a senior vice president, it is organized as shown in Figure 7.1. The senior vice president is a member of the management committee which meets weekly. As well, during the tenure of the present acting chief operating officer, the senior vice-president of corporate services and finance, the senior vice president of insurance operations and the chief operating officer constitute what has been described as a closely functioning "inner-cabinet", meeting as necessary, often daily.[1] Thus, financial matters can be broached directly and frequently at the executive levels of the corporation.

The departments, within the corporate services and finance division, of interest to the commission are as follows:

1. Controller's Department

The controller's department directs the development, implementation and operation of MPIC's financial reporting systems. The department prepares and reviews cashflows, places investments with the department of finance of the Manitoba government and identifies requirements for actuarial review. Moreover, it prepares comparisons to other publicly-owned insurance companies. The controller informs me he is active in the process, which has been underway for some months along with the corporate planning department, to refine and consolidate statistical and financial databases. (In my opinion, this consolidation is overdue: it is discussed at greater length below.)

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[1] Professor Terry Hercus, Human Resource Policies and Practices of The Manitoba Public Insurance Corporation; A Human Resource Audit.

The current organization of this department provides for it to be responsible for actuarial services. I am of the opinion that actuarial services are directly related to and should support MPIC's underwriting function rather than its financial services. Under a discussion of the organization of ratemaking and underwriting below, I recommend that actuarial services be organized within the underwriting function of MPIC.

2. Financial Services and Budgeting Department

This department administers MPIC's accounting and financial systems. It prepares capital, revenue and operating budgets and monitors and reports deviations between actual performance and approved budgets. The department has been active in revising financial forecasting.

3. Internal Audit Department

The internal audit group ensures that departments operate as mandated, that established standards are met, that management is receiving information required for decision-making and that resources are used effectively and economically. In addition, when so directed, it may conduct special audits and investigations on sensitive or complex issues. The manager and several other staff of internal audit resigned recently. Partly in response to these staff changes, Deloitte Haskins & Sells reported:

> "An internal audit department was in place but was serving primarily as a claims centre and agency audit group and had very little internal corporate audit involvement . . . . Senior management agree that the function is necessary and are . . . attempting to recruit a new head of internal audit . . . . The guidelines for the department have not, as yet, been developed in detail and will be, somewhat, dependent on the . . . new head."

I believe that a strong internal audit group -- reporting on substantive issues to the chief operating officer and meeting with the audit committee of the board -- can contribute much to continuing organizational review and reform. For this, the department's mandate must be developed soon and endorsed by the board.

Recommendation 7.01: That the internal financial audit department be given a mandate by the board of directors to conduct audits and operational reviews at the direction of the chief operating officer or the board, and further, that the department have the responsibility and authority to alert the chief executive officer or the board on its own initiative of financial weaknesses and potential needs for review.

This recommendation complements the recommendation made in Position Paper No. 1 on accountability, that the corporation conduct cyclical reviews of major business functions.

Public allegations related to the levels or the numbers of managers are broad-brush. Since the current organization of the corporation has only been in place since early 1988, it is too soon for me to judge whether these sweeping allegations have validity with respect to this division.

With respect to salaries of financial managers, I concur with Professor Terry Hercus' finding, based on his comparisons with five or six senior financial positions in public and private firms, that MPIC salaries are reasonable. Thus, I find no need to recommend changes.

Professor Hercus also reported an opinion held by some MPIC officials that:

> "Traditionalists . . . in the financial end of the business . . . [have] too much clout."

In my opinion "clout", in itself, is not a problem: it is proper for MPIC to have a control-oriented group, interested in ensuring that financial affairs are prudently conducted, and enjoying direct access to the executive. Were this group to become too influential, it could stifle innovation in operations. I have no evidence that this is the case, but assigning the actuarial service to finance could concentrate control excessively, so I have recommended that the actuarial service report elsewhere.

Regarding the professional development of financial managers, I accept the finding of Deloitte Haskins & Sells that:

> "Our information indicates that . . . the corporation has not expended much time or money on outside training and development of [financial] management. . . . As a result management appears to be somewhat isolated from the insurance industry . . . . [T]he present acting Chief Operating Officer has indicated that the corporation . . . will promote joining professional and industry

> associations . . . and will continue to encourage attendance at specific industry-related conferences."

It is important that MPIC keep abreast of developments in the industry because it does not experience the pressures of competition to be innovative.

Recommendation 7.02: That an organized program be undertaken in the corporate services and finance division to expand outside training and to broaden industry awareness.

B. FINANCIAL STATEMENTS AND REPORTS

1. Preparation of Statements and Reports

Financial information is processed using the computer facilities of Manitoba Data Services, the Manitoba government's central computer service bureau. All other functions including data entry, programming, and systems development are performed by employees of MPIC.[2] In addition, MPIC is making increased use of microcomputers to assist in preparing special analyses, models and projections.

Monthly financial reports, in standard format, include ratios and make comparisons to budget and/or prior months and/or the year-to-date. The information is made available in estimated form to management around the fifth or sixth of the next month and in final form to management and the board of directors two weeks later. Supplementing these financial statements are reports showing:

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[2] The major applications include premium billings, claims, accounts payable, payroll and the general ledger.

- Claims incurred by major cover such as bodily injury.
- Claims incurred by loss type such as single vehicle accidents.
- A financial forecast to the end of the current fiscal year and the subsequent fiscal year.
- A profit and loss history by month for a five year period and comparison to the current year's budget.
- An operations summary showing selected financial information.

Detailed, explanatory reports are also prepared quarterly for the board.

Several enhancements have recently been put in place:

- Rather than simply estimating a single profit or loss for a fiscal year-end, MPIC is now assigning probabilities to a variety of profit/loss scenarios.
- Each month the corporation is updating its forecast for the remaining months to year-end.
- MPIC has refined its techniques for claims monitoring and forecasting, partially as a result of actuarial review in 1987.
- MPIC is progressing in developing computer models to help estimate claims.

The corporation employs a systematic budgeting process which commences in the late spring. It is most intense in September and October and is completed by December when premium levels are set. A five year comparison of final budget figures versus actual results for the period 1983/87 is set out in Table 7.1. This table shows particularly large variations in estimating "claims incurred" and, also, in turn "underwriting losses".[3] There is no easy means to reducing such variations. The variations to some degree reflect the underlying uncertainty characteristic of insurance. What MPIC can do to improve its forecasting is take steps such as create better modelling, employ the services of an actuary on a continuous basis and improve reporting.

Overall, I adopt the findings of Deloitte Haskins & Sells:

> "The financial information appears to be timely, accurate, and well integrated with the budgetary process".

One of the particular weaknesses of the current reporting system, I am told by Deloitte Haskins & Sells, is that, because the sources of data for operational and financial reports are not entirely harmonized and because some reports are subject to manual adjustment, there are differences among the contents of reports. In the long run, the new computer systems which MPIC is proposing will force integration of information ensuring consistency. Subtle and overt differences in corporate data and definitions will have to be eliminated. As I report in the position paper on information systems, these new systems will take some years to install. At this stage I can not make any explicit recommendations.

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[3] That is to say, the difference between claims incurred and claims expenses on the one hand and premiums earned.

2. Public Quarterly Statements

For internal use only, quarterly income statements and balance sheets are prepared for the fiscal quarter-years ending January 31, April 30, and July 31. The commission believes that these or other quarterly reports should be made public to improve accountability. (The report for the fourth quarter is, in effect, already part of the annual report. I have advocated in Position Paper No. 10 how MPIC can strengthen its annual report.)

The format and content of the published reports needs to be such as to provide policyholders with information on developing patterns of losses and on the corporation's financial position.

Specifically, the published reports should provide for a breakdown of premiums and claims by the main types of coverage: collision and upset, comprehensive, accident benefits, third party bodily injury and third party property. In addition to reproducing the preceding quarters in the current fiscal year, the corporation should incorporate estimates of its expected experience for the remaining quarters, as shown in the sample report in Table 7.2. Finally, the report should show how the current quarter and year-to-date compare to the previous year. A brief explanatory narrative should accompany the financial and loss statistics material.

Recommendation 7:03: That, effective fiscal year 1988/89, MPIC prepare a financial and statistical statement, including estimates of premium sufficiency, as at January 31, April 30, and July 31 of each year and, further, that this report be made public no later than 30 days following the end of each quarter.

3. Autopac Versus General Insurance

Manitobans perceive that financial difficulties with the general insurance line of business over the past three or four years have spilled over into Autopac.

The most serious perception is that MPIC does not separate accounts for general insurance and Autopac. I am advised by MPIC and by Deloitte Haskins & Sells that this is not true. The MPIC Act requires separate accounting and, I believe, auditors have not detected any unlawful merging of accounts. A related perception is that the reinsurance losses in general insurance have affected Autopac. I consider this to be likewise false.

What is true is that the reporting of general insurance and Autopac mingles the two lines of insurance. I am informed by the consultants that:

> "Separate income statements are prepared for Autopac and General Insurance. However, on the balance sheet and many supporting schedules and reports, [the two lines of insurance] are mixed together . . . . Autopac and General Insurance are two distinct business, one a large government auto insurance monopoly, and the other a small open market diversified insurance company. A better focus on the operating results might be achieved if each organization had management and financial reports that were separate."

It should be noted that the current practice is administratively simpler and perhaps a little less expensive. But, I believe, accountability is compromised.

For instance, while MPIC can divide the value of its investment portfolio between general insurance and Autopac, it can not say exactly which individual investments (eg. which bonds or school debentures) were made from cash provided by one insurance line or the other. This practice is unacceptable, as the public can only be given a true accounting after some scrutiny of the accounts. A number of the financial tests used by private insurers cannot be applied simply to Autopac, without extended calculation.

In summary, in my opinion, public fears of a material overlap between the two lines of the business are groundless but perceptions of spillover can only be resolved if practices fostering them are changed.

Recommendation 7.04: That the financial statements for Autopac and general insurance, including balance sheets and all management reports, be separate and stand alone.

The equitability of the shared costs between the two lines, while not publicly questioned, was examined by consultants. Deloitte Haskins & Sells found no significant problem in this regard:

> "[T]he corporation has both an automobile and a general insurance division [so] there are certain costs which must be allocated between the divisions. Identifiable direct expenses, representing approximately 85% of expenses other than direct claim costs, are charged to each division. The balance of the expenses are allocated to the divisions on a systematic basis according to a formula updated by management and approved by the Board of Directors annually."

I also examined the assignment of business to the two divisions. The businesses, which in my view are unwisely assigned to general insurance, are:

- Special risk extension (SRE) -- largely for commercial vehicles -- has been underwritten through general insurance since 1984. Prior to 1984, it was written through Autopac. This business is profitable; I am informed it earns about $1.7 million in profits annually. Its transfer to general insurance increased the apparent profitability of general insurance at the expense of Autopac. In my opinion, SRE is a motor vehicle insurance and should be accounted for as such in Autopac, as it was for 13 years.

- Lay-up policies such as comprehensive insurance for vehicles not driven -- generally during the winter months -- are written through general insurance. This is also a profitable line of business, though small with about $500,000 in premiums written over five years. In my opinion, lay-up insurance is a motor vehicle insurance and should be accounted for as part of Autopac.

Recommendation 7.05: I recommend that special risk extension and lay-up policies be accounted for in Autopac.

C. PROFESSIONAL SERVICES

Due to requirements for professional independence or technical expertise, MPIC draws upon the financial management resources of external professional organizations.

1. Auditors

In accordance with Section 17(3) of The Manitoba Public Insurance Corporation Act cabinet authorized, as auditors for five years, the appointment of Thorne, Ernst and Whinney. This appointment commenced November 1, 1986, following public tender. Spicer-McGillivray had previously held this contract for a number of years.

As authorized under Section 17(4) of The MPIC Act, the provincial auditor also examines the accounts and makes a report to the Manitoba legislature.

Reports of these auditors are public documents. I adopt the Deloitte Haskins & Sells finding that:

> "The corporation's annual financial statements have been prepared in accordance with generally accepted accounting principles and have been accompanied by unqualified audit opinions. The financial policies as disclosed in the 1987 annual report include standard policies regarding investments, property and equipment, and pensions. In addition, the report discloses policies which are unique to the insurance industry regarding deferred premium acquisition costs and premium deficiencies."

Thus the statements have been lawfully, accurately and consistently prepared in keeping with generally accepted accounting norms to the extent these are applicable.

It is common practice for auditors to provide to a client a "management letter" which offers detailed comments on financial practices of the corporation that are too specific for disclosure in the annual report.

MPIC has made available to the commission this management letter for 1987. Some of the auditor's observations, along with the corporation's responses, are:

- It was noted that financial statements of the corporation currently segregate a portion of the liabilities between general insurance and Autopac. No segregation is made of the assets or the general liabilities. It was recommended that a consistent policy be adopted for both the assets and liabilities.

  The corporation accepted the recommendation.

- It was recommended the corporation review the benefits and costs of retaining a consulting actuary or hiring a permanent in-house actuary, adding that it would be more beneficial for the corporation to employ an internal actuary.

  The corporation is reviewing this matter, but accepts that continuous actuarial support is required.

- The accountants noted that the department of finance is responsible for handling and reporting all investment activities of the corporation including the collection and control of investment income and making investment purchases and disposals. There is no formal agreement between the corporation and the department of finance detailing the respective rights and responsibilities of the two organizations. As a consequence, it was recommended that a formal agreement be developed.

The corporation accepted the recommendation.

- The auditors found that one effective control available to the corporation would be a properly functioning audit committee of the board of directors, but noted that there had been no formal meeting in the previous year between the external auditors and the audit committee of the board. In addition, no meetings at all had been held during fiscal year 1987. To correct this deficiency, the auditors recommended that the audit committee of the board assume a greater role in control functions. Specifically, it was recommended that a formal meeting be held with the external auditors to approve the financial statements. As well, the audit committee should increase its role by meeting with the internal audit department and by reviewing its yearly plans.

  The corporation accepted this recommendation.

The corporation's written response to the auditor's management letter was prompt and reasonable. However, up to August 1988, the commission found little evidence that MPIC had made much headway in fulfilling its written commitments.

Recommendation 7.06: That MPIC submit to its board of directors a plan for implementing the changes agreed to in its reply to the 1987 management letter of its auditors.

2. Actuary

Commencing in the 1986/87 fiscal year, the corporation engaged by tender the services of one of Canada's largest actuarial companies specializing in property and casualty insurance, namely Tillinghast & Associates. This company was retained -- initially on a one-time basis -- to provide an independent opinion of the adequacy of reserves to meet future policy and claims liabilities.

The special contribution of an actuary as distinguished from that of an accountant (auditor) should be noted. These are complementary disciplines. The auditor examines the accuracy and fairness of all financial statements and, to a degree, the underlying files and statistics. The actuary looks behind the financial records in order to assess whether the policies and practices of the corporation (in calculating its reserves to meet future payments on claims) are statistically sound.

Thus, an actuary examines patterns of claims development for each past year -- for example, the payouts of 1974 claims by type (i.e. bodily injury) in 1974 and later years; the payouts on 1975 claims by type in 1975 and later years; and so on for the following years until the most recent year. The actuary assesses both these costs and the expense of administering these claims over time. This review entails an examination of individual claims files as well as aggregated statistics. The actuary then applies these development patterns to current claims in order to forecast how much they will ultimately cost; this forecast fixes the necessary reserve levels.

Tillinghast officials tell me that there are few actuaries, about 41, in the property and casualty field in Canada and it is only now becoming common practice for insurance companies to seek an annual actuarial analysis. They have also informed me that 15 years ago there were only four of these specialists. Consequently, insurance firms had tended to rely on auditors for independent advice. Auditors do review the case basis of loss reserves -- that is, the relationship of amounts set aside for individual claims to total requirements for loss reserves. But auditors do not have the statistical skills required to assess patterns of loss experience over a span of years. This is why it is beneficial for both auditors and actuaries to contribute to external reviews.

Although MPIC had been audited annually since its inception, 1987 was the first year that an external actuarial evaluation was carried out. Tillinghast made three significant observations and suggestions for refinements:

- That the reserves for Incurred But Not Reported (IBNR) claims be modified. The effect was to increase these reserves by $3,515,000 or 4.7 percent from $73.8 million to $77,315,000.

- It was known to MPIC and to the actuary by the end of the fiscal year on October 31, 1987, that the corporation was going to lose money for the validation year ending February 28, 1988. In effect, the projected premiums to be earned for the period November, 1987, through February, 1988, would be insufficient to meet the projected incurred losses for those four months. This is known as a premium deficiency. The forecast of the premium deficiency was estimated at $9,655,000.

Tillinghast suggested it be accounted for in the 1986/87 financial statement rather than the 1987/88 statement. This is a matter about which some differences of opinion exist, for Deloitte Haskins & Sells advise me that they would have recommended to MPIC, had they been the auditors, that this loss be accounted for somewhat differently in 1986/87. Nonetheless, MPIC took the course of action recommended by Tillinghast.[4]

- The internal claims adjusting costs, which represent the amount necessary to administer claims maturing in the future, was increased by $9,297,000 to $14.2 million.

The corporation accepted all the actuary's recommendations and adjusted its financial statements accordingly.

The corporation has expressed its intention either to continue to employ a firm of consulting actuaries, and or to employ an internal actuary as is done by the Insurance Corporation of British Columbia and by the Regie de l'assurance automobile du Quebec. The actuary must be intimately involved in ratemaking on a daily basis. In my opinion, therefore, the actuary ought to report to the chief underwriter whose responsibility is ratemaking.

[4] MPIC "booked" this loss by reducing an asset, known as the deferred premium acquisition cost (DPAC), by $6,899,000. A further liability was established for $2,756,000. Because insurance premiums are "earned" throughout the period of coverage, the DPAC associated with earning those premiums -- such as the agents' commissions -- is also amortized over the course of the coverage. However, commissions are paid at the beginning of the year; thus, in effect they have been prepaid and represent a declining asset of the corporation until the end of the insurance year, when the books return to balance.

I support MPIC's response to the advice of the actuary, but I find it regrettable that an actuary was not involved before 1987. Incidentally, an actuary should bring pressure to bear on MPIC to improve statistical systems the actuary will need.

Recommendation 7.07: That henceforth MPIC employ an actuary on staff and or as a consultant to assess continuously claims development and reserving practices, and that the actuary report to the chief underwriter.

D. MANAGEMENT OF CASH AND INVESTMENTS

Since 1978, banks have been selected at MPIC by public tender. The Canadian Imperial Bank of Commerce held the corporation's banking contract from 1978 to 1982 and the Royal Bank of Canada from 1982 to 1985. Effective January 2, 1985, CIBC obtained a five year contract. I find this to be a reasonable and prudent approach to retaining banking services.

As provided by legislation, the corporation invests in school divisions, hospital boards, municipalities and other public sector organizations. The investment is placed, on the corporation's behalf, by the Manitoba department of Finance. Evidence of the investment is provided in the form of a letter sent by the department advising MPIC that funds have been invested in a particular organization at a specified interest rate for a fixed term. The corporation does not take back a debenture agreement or other security. The commission's financial consultant advised me that the respective rights and obligations of the department, the corporation or the ultimate recipient are not set out in any document. Since most of the investments are not traded in a money market, MPIC may find itself poorly placed to reclaim its investment if it should need to do so before expiry of the investment term. I believe a more secure arrangement is needed.

Recommendation No. 7.08: That MPIC, in consultation with the department of finance of the government of Manitoba, develop a contract in which MPIC's investment rights and obligations are stated.

III. FINANCIAL MANAGEMENT ISSUES

In addition to the preceding general concerns, other specific issues were addressed by the commission. I next discuss the most important of these.

A. THE REPORTED LOSS OF $62 MILLION IN 1987

The reported loss of $62 million in 1987 contributed to the decision to implement large premium increases in 1988, resulting in loss of public confidence in MPIC and, I believe, in the establishment of this commission.

How did this loss arise? According to MPIC there were three, fairly equal, contributing factors:

- The corporation budgeted to lose $22 million in order to reduce further its accumulated surplus, then $50 million. (MPIC had previously been criticized for not returning these funds to policyholders by lowering rates.)
- MPIC sustained a further $19 million in losses, due to weather conditions and other vagaries. (The November 1986 storm, which left snowbanks blocking vision at intersections for months, is estimated to have cost $10 to $15 million alone.)

- Based on the actuary's recommendations, MPIC decided to take a one-time loss of $21 million.

I am persuaded that this is an accurate and reasonable accounting of the loss. In my opinion, however:

- The corporation should not budget for a loss. Unforeseen and unbudgeted losses, when added to a budgeted loss, can dramatically magnify the total loss (In section C, below, I return to this matter.)

- Unusual weather conditions and certain other occurences are unpredictable by their nature. The resulting losses are an inherent part of what the insurance business must expect on occasion and they must be anticipated.

- It was an unfortunate coincidence that the actuary's recommended corrections arose in a year of otherwise heavy operating losses. Had MPIC employed an actuary sooner, the recommended corrective actions could have been taken in earlier years when surpluses were available to cushion their impact. Phasing-in of rate increases would have been possible. If, as I recommend, MPIC employs an annual actuarial review in the future, I believe corrections of such magnitude should not recur.

B. INSURANCE INDUSTRY COMPARISONS

MPIC does not conduct regular detailed comparisons with private insurers, the consultants found. Therefore, at the commission's direction, Deloitte Haskins & Sells prepared a comparison of summary financial statistics for MPIC, State Farm Mutual Automobile Insurance Company, Allstate Insurance

Company of Canada, the Cooperators General Insurance Company and the Wawanesa Mutual Insurance Company, as well as for the entire Canadian insurance industry. There are important differences in the operations of these companies, such as their size and the proportion of their business related to vehicle insurance. This hinders direct and detailed comparisons, although such comparisons are still informative in general.

I include and adopt Table 7.3 from Deloitte Haskins and Sells, who observed:

> ". . . MPIC's increase in earned premiums (46.3%), while higher than the other two government insurance plans, has been moderate in relation to the industry. The increase in incurred losses (101.7%) has been significantly higher than the other government insurance plans and somewhat in excess of the industry."

Tables 7.4A and 7.4B, also adopted from Deloitte Haskins & Sells, contain some common financial ratios often used for analysis of insurance companies.

I find, based on the data presented in Tables 7.3, 7.4A, and 7.4B, that:

i) For every $100 in premiums earned from 1983 to 1986, MPIC returned about $101.90 to claimants either directly or through associated claims expenses. The industry average for Canada was $83.90. During those four years, MPIC was returning about $18.00 per $100.00 more than the industry. This generous level of return was, perhaps, too high since MPIC's financial situation was beginning to deteriorate in 1986.

ii) One of the reasons for this greater return to claimants was that the administrative and commission expense of the corporation totalled nine percent,[5] while for the industry in Canada it totalled 22.3 percent. MPIC is proud of its control of administrative expenses.[6] As Figure 7.3 reveals, the growth in administrative expenses over the past four years has paralleled but not exceeded growth in the claims volume.

MPIC has low administrative expenses for three reasons:

- As a monopoly, it enjoys economies of scale in administration and service.
- It can offer lower commission rates than private insurers who use higher commissions to induce agents to select good business, namely business with lower and more predictable risks.
- It need not pay a return to its owner.

These remain advantages for a monopoly, government-owned supplier of insurance.

iii) MPIC pays premium tax at a rate slightly exceeding the industry average for Canada (3.1 percent versus three percent).

The preceding tables contain selected information highlighting differences in financial ratios among ICBC, SGI and MPIC. Regrettably, these differences cannot be understood in detail as the corporation does not possess sufficient material on the operations and accounting of its sister corporations.[7]

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[5] Deloitte Haskins and Sells observe that MPIC nets time payment fees against administrative expenses; it this were not done, then MPIC's expense percentage would rise to 10%.

[6] For instance, the 1986 Annual Report states: "At 4.5% of premium's earned, the corporation's administrative expense ratio is the lowest of any major insurer in Canada."

Indeed, for much of the specific information the commission required about ICBC and SGI, the commission was referred by MPIC to the other provinces. MPIC officials said that the formal flow of information was constrained by an unwillingness on the part of ICBC or SGI to risk what might be an unfavourable comparison. In the course of this review, the commission communicated with both SGI and ICBC. The officials of both were cordial, informative and helpful. Nonetheless, the apparent reluctance to share information is regrettable because the experiences of the three publicly-owned companies could provide insights into alternative practices.

Recommendation 7.09: That MPIC carry out annual comparisons with ICBC and SGI in greater depth than now and with selected private insurance companies.

C. CAPITALIZATION AND SURPLUS RESERVES

Private insurers, registered as companies in Canada, are obliged by the superintendent of insurance of Canada to have capital and surplus at a level of approximately one-third of their net written premiums. The capital and surplus ensures a company's solvency and so provides protection to claimants in case of unexpectedly large losses. In this regard,

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[7] To MPIC's credit, as Deloitte Haskins & Sells points out: ". . . while the corporation has not formally exchanged information with the other government insurers on a regular basis, [MPIC does] prepare detailed analysis of the other corporation's annual reports."

Coopers & Lybrand advised the commission:

> "Using the insurance risk ratio as a basis to evaluate reserve levels, MPIC falls far short of acceptable standards for private insurance companies. . . . The insurance risk ratio is a measure of a company's ability to absorb financial shock given the strength of its reserves. The ratio is calculated by dividing the value of premiums written during a period by the amount of surplus on hand at the end. The Canadian insurance . . . solvency test sets the maximum insurance risk ratio at 3.5. To meet this requirement, MPIC would need reserves for the MPIC Automobile Division [Autopac] of approximately $70 Million. Most Canadian property and casualty insurance companies maintain surpluses equal to about one-half the value of the premiums they write. Should MPIC seek this higher reserve level, approximately $125 million would be required."

The level of contributed capital and surpluses dictated by solvency consideration is not required, in my opinion. Among publicly-owned insurance companies, it has not been the practice to provide capital to assure this protection, since:

- The company is a monopoly -- that is, premiums can be raised as much as necessary in future years to offset losses without eroding the customer base.
- The government implicitly stands behind the financial position of the company.

Deloitte Haskins & Sells write:

> "In regard to the theory that government should inject . . . capital, it should be noted that the investor [i.e. government] would expect a return on this investment as is the case in private insurance. This means that if government put in $80 million and this was in turn invested by Autopac at 12%, generating $9.6 million in interest, Autopac would then need to pay this out by way of return and investment to the government. Autopac would not benefit, and would be in

> the same net position. The policy holders would have an extra measure of protection against potential future losses of Autopac, although this is not a major concern under the present arrangement whereby operations are implicitly guaranteed by the Provincial Government . . . . [H]owever, it is good management practice that government insurance companies should accumulate a surplus in good years in order to dampen extremes of rate increases that would normally happen during the normal business fluctuations of the insurance market. It would be prudent for the company to accumulate a surplus in order to protect against unexpected claim cost increases . . . . "

I concur that capitalization, in the form of an injection of equity capital, by the Manitoba government would not be of net benefit to MPIC or the government.

Recommendation 7.10: I recommend that the government of Manitoba not provide equity capital to MPIC.

I also accept the advice that MPIC should accumulate a surplus in order to provide a cushion against massive rate shocks occasioned by unforeseen losses.

Several options are available for establishing the level of surplus:

Option 1: Table 7.4B shows that MPIC has erred by 3.5 percent annually over a five year period in estimating "claims incurred". If this level of excess loss were experienced annually over a three year period, without remedial action being taken, then the overall loss would exceed expectations by ten or 11 percent. The surplus to offset this accumulating unexpected loss would amount to ten percent of premiums. Today this would mean a surplus of ten percent of $300 million or $30 million.

Option 2: As Figure 7.4A shows, over the past ten years the corporation has never shown a loss of more than 13 percent of its premiums written in any one year.[8] Here I use loss to be the difference between all claims and expenses. Thus a 13 percent level of reserves would protect against one year of extreme losses (out of ten). Alternatively, the Public Utilities Board has taken a position with respect to Manitoba Hydro that its financial reserves ought to be enough to offset the financial effects of two years of drought. If one applied a similar requirement to MPIC, then the reserves should be enough to offset two years of relatively extreme losses. Two years should give MPIC time to adjust rates to forestall further losses or to begin to rebuild surpluses. Over any two year period since 1975, the cumulative losses have never exceeded 20 percent of premiums. Accordingly, a 20 percent level of reserves would protect against two successive loss years. If applied today, this approach would mean reserve levels of about $60 million.

Option 3: Coopers & Lybrand observe that:

> "In the United Kingdom, a common requirement is that a company's unimpaired surplus be equal to or exceed 16 percent of net premiums written, that is, the difference between total premiums written and premiums remitted to insurers on ceded risks. If this test were applied to Autopac, MPIC would [have] required a surplus of [about] $39 million

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[8] This figure does not count these parts of the 1987 loss which were the one-time actuarial adjustments.

> in October 31, 1987. . . . We favour [this] minimum solvency requirement . . . . To give the Corporation some flexibility, we recommend that MPIC adopt a policy of maintaining an unimpaired surplus of between 16 percent to 20 percent of the value of net premiums written."

Option 4: Coopers & Lybrand also note another approach:

> ". . . the loss reserves to surplus test. This is used to determine whether the value of unpaid claims and adjustment reserves is no greater than two and one-half times the value of an insurance company's surplus. To satisfy this requirement, MPIC would have had to have had a surplus of at least $100 million on October 31, 1987."

Option 5: Deloitte Haskins & Sells recommend a surplus of 25 percent of premiums written. Applied against $300 million of premiums in 1988, this amounts to establishing a surplus of about $75 million.

Option 6: The standard insurance insolvency guidelines would suggest a ratio of about 30 percent of premiums, or roughly $100 million today. As I mentioned above, I do not believe it is necessary for MPIC to meet the exacting standards applied to privately-owned insurance companies in order to guarantee claims will be paid. Unlike other companies, MPIC is a monopoly backed implicitly by the government of Manitoba.

I also note that when Autopac's accumulated surpluses were about $71 million in 1984/85 there was public debate about the wisdom of the policy which directed such a high reserve. This led to the corporation's policy of gradually reducing reserves to lower levels, through planned losses, although the MPIC board had not approved a precise reserve target or reduction policy.

Based on these options and observations, I find that reserves of between $30 and $60 million would be reasonable with a target level between $40 and $50 million.

Recommendation 7.11: That the government of Manitoba issue a public directive to the corporation setting an Autopac retained surplus target of about 15 percent of premiums. (This would amount to $40 to $50 million at prevailing premium levels.) The government directive should indicate that, if the Autopac surplus falls below ten percent or exceeds 20 percent of premiums, the corporation should and would be expected to take remedial action.

As I remarked above, the corporation budgeted for losses in 1986 in order to reduce surpluses. When losses occurred beyond those anticipated, the corporation's accumulated surpluses were suddenly eliminated in a single year. This is unacceptable. To prevent a recurrence, I suggest the following approach:

- When Autopac surpluses exceed target levels, the corporation should budget to break even; if a loss materializes then surpluses should be run down accordingly.
- When the corporation is operating below surplus target levels, offsetting rate increases should be phased in over a period of up to five years (depending upon the reserve deficit) in order to minimize rate shocks.

This approach will allow a more stable financial operation at Autopac.

Recommendation 7.12: That the corporation not budget deliberately for losses in any year, but budget for surpluses where reserves have been reduced below target levels, and that budgeting for surpluses should be such as to result in depleted reserves being returned to the target range over a period of not more than five years, depending on the degree of depletion.

D. INVESTMENTS

I adopt the findings of Deloitte Haskins & Sells with respect to MPIC investments:

> "[MPIC] is required under Section 12(1) The Manitoba Public Insurance Corporation Act to pay funds available for investment to the Minister of Finance. The types of long term investments in which the Minister of Finance may invest are set out under Section 19(1) of The Financial Administration Act and are, in summary, limited to:
>
> - Securities issued or guaranteed by the Federal Government, any provincial government, the Government of the United Kingdom and the Government of the United States of America.
> - Securities issued by any Manitoba government agency or corporation. . . .
> - Securities issued by Manitoba municipalities, schools or hospitals.
> - Guaranteed trust certificates issued by trust companies entitled to transact business in Manitoba.
>
> In addition, the corporation/Department of Finance have in practice the policy of investing wherever possible within the Province of Manitoba."

The actual values of invested assets since 1983 are displayed in Figure 7.6 according to whether they are in long-term or short-term investments. About 70 percent of assets are in MPIC's long-term portfolio, although this varies year by year. As indicated in Table 7.5, the corporation's total long term portfolio is entirely invested in fixed income securities, of which approximately 89 percent are invested in Manitoba and 37 percent are securities issued by Manitoba municipalities, schools or hospitals. This list of specific investments appears in the annual reports, although the yield and maturity dates are absent.

These investments in Manitoba have been described as beneficial to Manitoba, without having drawbacks for MPIC. In this regard, the University of Manitoba Research Limited observed:

> "MPIC's Annual Report suggests that it serves an important social purpose in providing funds for municipalities and school boards. The full argument is that, by doing so, MPIC helps to further all the social purposes served by municipalities and school boards.
>
> "The claim that MPIC is being good for public infrastructure in Manitoba is specious. To understand this consider how MPIC uses the pool of premiums. The basic procedure is simply to buy the bonds issued by various school boards and public institutions. These investment are guaranteed by the Department of Finance and this confers some cost savings to the insurers in terms of underwriting. [That is to say, brokerage fees of one quarter percent need not be paid.] For the most part the interest paid by the school boards and public institutions is at, or slightly below, currently market rates. [This is offset to a degree by absence of a brokerage fee, so the net return to the corporation is about equal to that of other corporations in Canada.]
>
> "There are many sources of capital in Manitoba such as pension funds, corporations and banks. Assuming that the school board is prepared to pay a market rate of interest, whether these funds come from the MPIC or the University of Manitoba Pension fund is immaterial. . . . . [I]t is a common assertion that keeping Manitobans' money in Manitoba is a good thing, yet if it forces other Manitoba savers (e.g. pension funds) to go outside to invest, the gain is an illusion.
>
> "There is simply no situation in which the premium pool of MPIC provides any extraordinary benefit to Manitobans compared to other capital sources in Manitoba."

While I concur that there may be no particular benefit to investing MPIC's funds in public sector organizations, I also believe, based on detailed studies by consultants, that there is no detriment. In the public interest, the yield and maturity dates should be contained in the annual reports.

Regarding the management of this long-term portfolio, I have been informed that this is done by the department of finance of the Manitoba government, which is responsible for decisions on purchases and disposals, the collection and control of investment income and the reporting of investment activities. However, no formal agreement between MPIC and the department exists. No brokerage fees are charged to MPIC.

Table 7.6 compares the composition of the MPIC total portfolio to those of SGI, ICBC and all Canadian registered property and casualty insurers. ICBC, SGI and the industry have more diversified portfolios with mortgages, preferred shares and common stocks representing 20 to 30 percent of investments. ICBC at December 31, 1986 did not have any long-term investments other than bonds and debentures, but is authorized to invest up to $50 million in Canadian equities.

Table 7.7 compares the investment yield of various insurers for the period from 1983 to 1986. Precise comparisons should not be attempted of the various yields in the foregoing tables, because of differences in the calculation of the investment base. Nonetheless, in my opinion, it is fair to adopt the conclusion of the consultants in this regard:

> ". . . the general indication is that MPIC's performance has approximated that of the other insurers, despite a less diverse portfolio, and relatively passive investment management."

In light of the above, I find there are no grounds to recommend significant alteration in MPIC's investment processes, but the reporting can be improved.

Recommendation 7.13: That, in the public interest, yield and maturity dates of MPIC investments be published in the annual report.

E. RE-INSURANCE

Recent publicity about reinsurance losses has led to the belief by some that Autopac's deficit occurred partly or entirely because of those losses. It is clear, however, that reinsurance losses were those of the general insurance division and that Autopac was burdened with no part of them.

For a more complete understanding of reinsurance, moreover, the distinction between reinsurance assumed and reinsurance ceded should be explained. Under various types of written "treaties", MPIC, like other insurers, had agreed to:

- "Cede" or transfer certain defined risks to other insurers. It would pay a premium to do this.
- "Assume" or accept a share of certain defined risks from other insurers. It would receive a premium to do so.

The Autopac division has not engaged in the business of reinsurance assumed. It has risked no funds through that service.

Autopac has ceded risks through re-insurance arrangements in two areas:

- For large individual excess of loss coverage, and
- For catastrophe coverage.

Insurance is arranged in several segments and MPIC carries out an annual formal review process.[9]

The annual premiums paid for these reinsurance coverages at October 31, 1987 were:

- For liability coverage -- \$1.426 million.
- For catastrophe coverage -- \$1.788 million.

MPIC produces a report for each of the layers of re-insurance comparing the premiums paid and the current value of claims reported against each layer. This report does not take into account either the associated administrative expenses or the interest on funds paid to a reinsurance company that otherwise could have been earned by MPIC.

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[9] The current coverage is as follows:

1. Liability coverage (excessive loss) at October 31, 1987.

   Up to \$1 million in excessive loss -- retained by MPIC.
   \$1 - \$2 million -- re-insured (i.e. ceded).
   \$2 - \$4 million -- re-insured (i.e. ceded) for multiple accidents.

   Autopac's limit of liability for any one accident is \$2 million. If an insured wished coverage above the \$2 million (usually in commercial insurance), this would be covered by a separate policy written in the special risk extension program of general insurance.

2. Catastrophe coverage (property damage) at October 31, 1987.

   Up to \$2 million -- retained by MPIC.
   \$2 - \$4 million -- first layer of reinsurance re-insured 97½ percent (i.e. MPIC retains responsibility for 2½ percent).
   \$4 - \$10 million -- second layer re-insured 95 percent.
   \$10 - \$30 million -- third layer re-insured 100 percent.
   \$30 - \$40 million (Raised to \$60 million top limit January 1, 1988) -- fourth layer re-insured 100 percent.

With respect to Autopac reinsurance, I concur with the summary findings of Deloitte Haskins & Sells:

> ". . . . since 1971, MPIC has made money on its re-insurance [for Autopac] on a before interest lost basis . . . . However, the reports do not include interest lost to MPIC."

Recommendation 7.14: That MPIC calculate the lost interest costs on the reinsurance treaties pertaining to Autopac and include this in reports showing re-insurance profits/losses.

F. FINANCIAL MANAGEMENT RELATED TO CLAIMS

1. Projecting Claims Costs and Expenses

As shown in Table 7.3, direct claims costs and claims expenses equal about 100 percent of Autopac premiums. MPIC enjoys several business advantages in its analysis of these costs:

- It has 100 percent of basic motor vehicle insurance in the province and does not have to deal with issues related to market share and a changing base of insured.
- Statistics can be related directly to provincial statistics such as accidents, traffic violations, labour costs and so on.
- The company has a large enough database to apply modern computerized techniques on an effective basis.

However, as Table 7.1 illustrates, MPIC has experienced limited success in forecasting incurred claims.

Since last fiscal year, MPIC has distinctly improved its claims forecasting. MPIC continues to apply the database management and analysis techniques developed through the actuarial review. The corporation has also developed a new claims incurred forecasting model to help project both current and longer term claims costs. This model appears to be carefully formulated and should be of considerable use to the corporation.

Weaknesses do remain. MPIC has been in business since 1971 and has a large amount of data concerning claim costs that could be analyzed and related to external changes in order to make better claims predictions. Until recently, as Deloitte Haskins & Sells found:

> "MPIC has kept and produced a large number of claims reports over the years. However, these reports have not been well organized, coordinated or consistent. It would be a vast improvement to have one organized, consistent and well-thought-out claims and premiums database."

Recommendation 7.15: That MPIC develop a consistent and comprehensive historical claims database to assist in claims analysis.

2. Discounting Future Claims Liabilities

A technique commonly used in other financial analyses is to discount, to the present, the value of future monies. This takes into account the fact that money earns interest over time. However, the practice of recognizing the time value of money in claims provisions has been little used in the insurance industry, I am told. Indeed, in the Canadian Institute of Chartered Accountants' handbook, there is a section applying to property and casualty insurance companies. They write:

> "Consensus has not been reached as to the propriety of specifically recognizing the time value of money in establishing claims provisions."

Deloitte Haskins & Sells comment:

> "In the case of Autopac claims, discounting would only be possible in the liability and accident and death benefit areas. . . .Discounting of the general liability claims for bodily injury should be approached with caution. History has shown that these long term claims most often settle for more than projected. Therefore, the conservative approach of not discounting has generally been followed."

Having said that, it should be observed that there are certain categories of claims -- such as claims where a definite term or amount are already determined, as in structured settlements[10] -- for which discounting might be considered.

Recommendation 7.16: That MPIC conduct a study of the merits and drawbacks of discounting to present value all long term claims where a definite term and amount are determined.

G. EFFICIENCY OF AUTOPAC TIME PAYMENT OPERATIONS

I have described in Position Paper No. 4 how MPIC might improve its Autopac time payment plan in terms of benefits for the consumer. Another important question is the administrative efficiency of the premium financing service.

[10] A structured settlement is a situation where an amount has been actuarially determined to be paid out annually for a period of time, possibly until a claimant's death. Thus, the actual value of this claim can be exactly determined following standard accounting principles.

The corporation now assumes full responsibility for administering the time payment plan. I am informed of the following alternatives:

- The corporation could tender the entire operation of the time payment plan to a private retail credit organization.
- MPIC could, at a discount, assign all of its receivables to one or more collection agencies.
- The corporation could arrange with one or more private retail credit organizations to collect only its past due premiums.

I do not believe that the first two alternatives have much potential to lower the corporation's costs. For the vast majority of policyholders who remit their payments on time, the corporation already has the means to perform the required work efficiently as part of its normal Autopac administration. If an external organization were to accept full responsibility for the time payment plan, it would have to duplicate much of what already exists within MPIC. It would need to:

- Develop and maintain files of policyholder information already on hand at MPIC.
- Provide for separate and additional mailings of information to policyholders.
- Exchange information with MPIC -- at additional expense to itself and the corporation -- about both the status of insurance on vehicles or drivers and, further, any delinquency in remitting premiums.

I am advised that it highly unlikely that a private retail credit organization could accept these expenses and earn a reasonable profit at an additional cost that would be acceptable to policyholders. The commission was informed that the greatest potential for reducing the costs of the Autopac time payment plan may lie in the collection of time payments that are past due. As I have described, MPIC now makes repeated efforts to collect these sums. If these attempts fail, the corporation notifies the registrar of motor vehicles that a policyholder will no longer be insured beyond a certain date. In turn, the registration on the vehicle is suspended. Since credit collection is incidental to the main insurance functions of the corporation, I believe it is possible that the collection of arrears could be conducted more effectively and efficiently by an organization that specializes in this work. Therefore, I propose that the corporation conduct a study of the feasibility of using a private retail credit organization to provide assistance in collecting past due Autopac premiums.

Recommendation 7.17: That the corporation secure an independent assessment as to the feasibility of improving its collection of past due Autopac premiums and reducing its operating costs by drawing upon the services of one or more retail credit organizations.

IV. SUMMARY OF MAIN CONCLUSIONS

Financial management is just as important for MPIC as it is for any insurance organization. In order to assess MPIC's financial affairs, the commission examined controls, planning, reporting, investments and surpluses, and the involvement of auditors and actuaries. It was assisted in this examination primarily by two international accounting/consulting firms, Deloitte Haskins & Sells and Coopers & Lybrand.

Manitobans did not present many specific grievances on Autopac financial affairs before the commission. Rather, the allegations suggested the taint of financial mismanagement in light of:

- The loss of $62 million, reported by MPIC in 1987.
- Earlier reinsurance losses at the general insurance division.
- Poor returns on investments.

In response to these concerns, I conclude that:

- The audit committee of the board of directors and the internal audit group have been too passive in ordering and conducting operational reviews.
- MPIC's financial managers, like other MPIC officials, appear to be somewhat isolated from the insurance industry and have limited formal contacts with two public insurance corporations in Saskatchewan and British Columbia.
- Generally, financial information and reporting is timely, accurate and well integrated with the budgetary process. However, many sources of financial and operational data exist and are not always consistent or harmonized.
- Separate accounts, as required by law, are maintained for Autopac and general insurance. Reinsurance losses in general insurance had no financial impact on Autopac. However, internal and external financial reports do not always distinguish Autopac and general insurance. Moreover, two specific motor vehicle insurance coverages -- special risk extension and seasonal lay-up policies -- are inappropriately accounted for in general insurance instead of Autopac.

- The corporation's annual financial statements have been prepared in accordance with generally accepted accounting principles and have been accompanied by unqualified audit opinions. MPIC, moreover, has accepted usually the specific advice prepared by the auditors on detailed procedural changes.

- The corporation employed a consulting actuary to make a report on October 31, 1987. MPIC accepted all the actuary's recommendations for changes to its financial reserving practices and adjusted its financial statements for 1987 accordingly. MPIC has expressed its intention to employ either a consulting actuary or a staff actuary on a regular basis. It is regrettable this was not done sooner.

- The $62 million reported loss in 1986/87 is attributable to three roughly-equal factors alone: a budgeted loss of $22 million, a further loss of $19 million due to exceptional weather conditions over the winter of 1986/87, and adjustments of $21 million called for by the Tillinghast actuary employed in 1987. To avert such exceptionally large losses in any single future year, the corporation should avoid budgeting for losses and hereafter employ the services of an actuary.

- Relative to the Canadian insurance industry, MPIC has low administrative expenses, which enable it to return to policyholders, as claims paid and claims expenses, an amount about equal to premiums. This benefit arises because, as a monopoly, MPIC enjoys economies of scale in service and need not pay commission rates as high as those of private insurers.

- There would be no net financial benefit to Autopac or to the Manitoba government if the government injected equity capital. However, MPIC should restore its financial flexibility by building, over three to five years, a surplus position of approximately 15 percent of premiums written. On October 31, 1987 MPIC had no Autopac surplus; instead it had a deficit of $9 million. If MPIC had had a 15 percent Autopac surplus on October 31, it would have amounted to $40 million. This surplus would provide a cushion against potential losses and consequential rate shocks.

- MPIC's investments are largely managed by the department of finance of the Manitoba government. The performance of these securities has approximated that of other insurers in Canada despite a less diverse portfolio and relatively passive investment arrangement.

- As currently accounted, MPIC's reinsurance practices; in respect to Autopac, have made money. Accounting practices would be more revealing if administrative costs and the interest foregone on reinsurance premiums were included.

- MPIC has not undertaken sufficient analysis of its historical data; it remains fragmented and inconsistent.

V. RECOMMENDATIONS

Recommendation 7.01: That the internal financial audit department be given a mandate by the board of directors to conduct audits and operational reviews at the direction of the chief operating officer or the board, and further, that the department have the responsibility and authority to alert the chief executive officer or the board on its own initiative of financial weaknesses and potential needs for review. (Page 5)

Recommendation 7.02: That an organized program be undertaken in the corporate services and finance division to expand outside training and to broaden industry awareness. (Page 7)

Recommendation 7:03: That, effective fiscal year 1988/89, MPIC prepare a financial and statistical statement including estimates of premium sufficiency as at January 31, April 30, and July 31 of each year and, further, that this report be made public no later than 30 days following the end of each quarter. (Page 10)

Recommendation 7.04: That the financial statements for Autopac and general insurance, including balance sheets and all management reports, be separate and stand alone. (Page 12)

Recommendation 7.05: That special risk extension and lay-up policies be accounted for in Autopac. (Page 13)

Recommendation 7.06: That MPIC submit to its board of directors a plan for implementing the changes agreed to in its reply to the 1987 management letter of its auditors. (Page 16)

Recommendation 7.07: That, henceforth, MPIC employ an actuary either on staff and or as a consultant to assess continuously claims development and reserving practices, and that the actuary report to the chief underwriter. (Page 20)

Recommendation 7.08: That MPIC, in consultation with the department of finance of the government of Manitoba, develop a contract in which MPIC's investment rights and obligations are stated. (Page 21)

Recommendation 7.09: That MPIC carry out annual comparisons with ICBC and SGI in greater depth than now and with selected private insurance companies. (Page 25)

Recommendation 7.10: That the government of Manitoba not provide equity capital to MPIC. (Page 27)

Recommendation 7.11: That the government of Manitoba issue a public directive to the corporation setting an Autopac retained surplus target of about 15 percent of premiums. (This would amount to $40 to $50 million at prevailing premium levels.) The government directive should indicate that, if the Autopac surplus falls below ten percent or exceeds 20 percent of premiums, the corporation should and would be expected to take remedial action. (Page 30)

Recommendation 7.12: That the corporation not budget deliberately for losses in any year, but budget for surpluses where reserves have been reduced below target levels, and that budgeting for surpluses should be such as to result in depleted reserves being returned to the target range over a period of not more than five years, depending on the degree of depletion. (Page 30)

Recommendation 7.13: That, in the public interest, yield and maturity dates of MPIC investments be published in the annual report. (Page 34)

Recommendation 7.14: That MPIC calculate the lost interest costs on the reinsurance treaties pertaining to Autopac and include this in reports showing re-insurance profits/losses. (Page 36)

Recommendation 7.15: That MPIC develop a consistent and comprehensive historical claims database to assist in claims analysis. (Page 37)

Recommendation 7.16: That MPIC conduct a study of the merits and drawbacks of discounting to present value all long term claims where a definite term and amount are determined. (Page 38)

Recommendation 7.17: That the corporation secure an independent assessment as to the feasibility of improving its collection of past due Autopac premiums and of reducing its operating costs by drawing upon the services of one or more retail credit organizations. (Page 40)

TABLE 7.1

AUTOPAC REVIEW COMMISSION
ANALYSIS OF BUDGET VARIANCES AT MPIC
1983 - 1987

(Millions of $)

	Actual	Budget	Difference	
Premiums Earned	$1025.3	$1,024.4	.9	.1%
Claims Incurred*	993.7	961.0	(32.7)	3.4%
Commissions and Taxes	79.6	79.7	.1	.2%
Administrative and Claims	157.6	166.3	8.7	5.3%
Underwriting (Loss)	(205.6)	(182.6)	(23.0)	12.6%
Investment Income	163.1	157.0	6.1	3.9%
Net (Loss)	$ (42.5)	$ (25.6)	$(16.9)	65.7%
Claims Incurred *				
1987	$ 278.6	$ 259.8	$(18.8)	7.3%
1986	219.2	197.8	(21.4)	10.8
1985	182.2	169.0	(13.2)	7.8
1984	158.9	173.4	14.5	8.4
1983	154.8	161.0	6.2	3.9
	$ 993.7	$ 961.0	$(32.7)	3.4%

Note: The figures above are as per the final budget. In 1987, premiums were set based upon an initial budget in which claims incurred were estimated at approximately $30 million less than the estimate per the revised and final budget.

TABLE 7.3

AUTOPAC REVIEW COMMISSION
ANALYSIS OF CHANGES IN EARNED PREMIUMS AND INCURRED LOSSES

1982 - 1987

(Millions of $)

EARNED PREMIUMS	1982	1983	1984	1985	1986	1987
MPIC	$162.3	$174.3	$190.0	$200.7	$215.0	$237.5
ICBC	657.6	695.1	715.3	742.3	757.5	821.8
SGI	161.9	171.3	187.8	192.6	190.3	n/a
Industry	3275.2	3601.9	3718.2	3959.1	4695.2	5375.3
Changes from 1982						
MPIC		7.4%	17.1%	23.7%	32.5%	46.3%
ICBC		5.7	8.8	12.9	15.2	25.0
SGI		5.8	16.0	19.0	17.5	n/a
Industry		10.0	13.5	20.9	43.4	64.1
INCURRED LOSSES						
MPIC	$151.9	$168.6	$178.8	$203.9	$244.5	$306.3
ICBC	670.6	689.2	723.5	718.8	812.4	929.6
SGI	141.4	141.8	149.2	191.1	197.7	n/a
Industry	2481.6	2656.5	3109.9	3702.8	4145.4	4673.5
Changes from 1982						
MPIC		11.0%	17.7%	34.3%	61.0%	101.7%
ICBC		2.8	7.9	7.2	21.1	38.6
SGI		0.3	5.5	35.1	39.8	n/a
Industry		7.0	25.3	49.2	67.0	88.3
LOSS RATIO						
MPIC	94%	97%	94%	102%	114%	129%
ICBC	102%	99	101	97	107	113
SGI	87	83	79	99	104	n/a
Industry	76	74	84	94	88	87

Note: The figures for MPIC for 1982 and 1983 have been adjusted to exclude special risk extension coverage which subsequent to 1983 has been recorded in the general insurance division. The net earned premiums for this coverage for 1982 and 1983 were $7 million and $7.8 million respectively, and the net incurred losses were $4.8 million and $4.9 million respectively.

TABLE 7.4A

AUTOPAC REVIEW COMMISSION
RATIO ANALYSIS - ACTUAL
1983 - 1986

	MPIC	ICBC	SGI	State Farm	Selected Comp.	Industry
Premiums Earned	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Claims	90.8	92.2	81.6	89.8	81.8	83.9
Claims Expenses *	10.9	9.0	10.0	N/A	N/A	N/A
	101.9	101.2	91.6	89.8	81.8	83.9
Administrative	4.3	8.3	8.6	8.2	15.2	)
						) 22.3
Commissions	4.7	6.7	1.2	8.9	8.8	)
Premium Taxes	3.0	-	3.9	3.2	3.2	2.8
	113.6	116.1	105.4	110.1	109.0	109.0
Underwriting (Loss)	-13.6	-16.1	- 5.4	-10.1	- 9.0	- 9.0
Investment Income	16.0	19.2	14.3	18.5	16.7	N/A
Income	2.4 %	3.1 %	8.9 %	8.5 %	7.7 %	N/A

* Estimated for SGI and not available for State Farm, selected companies or the industry.

TABLE 7.4B

AUTOPAC REVIEW COMMISSION

RATIO ANALYSIS - PRO FORMA

1983 1986

	MPIC	ICBC	SGI	State Farm	Select. Comp.	Industry
Adjusted Premiums	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Claims	91.9	91.2	90.0	93.8	86.3	88.5
Claims Expenses*	11.0	8.9	10.0	N/A	N/A	N/A
	102.9	100.1	100.0	93.8	86.3	88.5
Administrative	4.3	8.2	9.4	8.6	16.0	23.5
Commissions	4.8	6.7	1.4	9.3	9.3	
Premium Taxes	3.1	-	4.3	3.3	3.3	3.0
	115.0	115.0	115.0	115.0	115.0	115.0
Underprofit (Loss)	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0
Investment Inc.	16.2	19.0	15.6	19.3	17.6	N/A
Income (Loss)	1.2%	4.0%	0.6%	4.3%	2.6%	N/A

* Estimated for SGI, and not available for State Farm, selected companies or the industry.

TABLE 7.5

AUTOPAC REVIEW COMMISSION

MPIC LONG TERM INVESTMENTS - BOOK VALUE

1983 - 1987

(Millions of $)

	1987	1986	1985	1984	1983	Avg.
Manitoba						
Prov. Gov't.	$ 88.8	$ 88.8	$ 96.6	$ 89.7	$ 74.7	34.3%
Crown Corps.	44.8	44.5	44.9	44.7	44.4	17.5%
Hospitals	40.7	44.4	48.2	38.0	35.0	16.1%
Schools	38.5	30.7	23.3	16.3	6.7	9.0%
Municipal	28.3	30.8	28.7	30.5	31.6	11.8%
	$214.2	$239.2	$241.7	$219.2	$192.4	88.7%
Other						
Federal	14.8	14.9	14.8	14.8	0.0	4.7%
Ont. Crown Corp.	25.7	25.4	25.2	6.9	1.4	6.6%
	$ 40.5	$ 40.3	$ 40.0	$ 21.7	$ 1.4	11.3%
TOTAL	$281.7	$279.5	$281.7	$240.9	$193.8	100.0%

Note: All investment information includes both auto and general insurance funds.

TABLE 7.6

AUTOPAC REVIEW COMMISSION
MPIC: ANALYSIS OF AVERAGE INVESTMENT PORTFOLIO
1983 - 1986

	MPIC	ICBC	SGI	Industry-Cdn
Cash and short-term deposits	17%	23%	28%	13%
Bonds and Debentures	83	77	53	57
Mortgages	-	-	-	-
Preferred	-	-	-	11
Common	-	-	13	13
Real Estate	-	-	-	1
	100%	100%	100%	100%

TABLE 7.7

AUTOPAC REVIEW COMMISSION
MPIC ANALYSIS OF INVESTMENT YIELDS
1983 - 1986

Adjusted Department of Insurance Formula	1986	1985	1984	1983	Average
MPIC	13.4%	13.7%	13.4%	13.1%	13.4%
ICBC	12.5	13.6	13.3	13.3	13.2
SGI	13.4	13.7	13.4	13.0	13.4
Industry - Canadian	12.6	13.3	11.6	12.9	12.6
Effective Yield					
MPIC	12.1	12.7	12.1	11.4	12.1

Paper #7
FR007

Revised September 12, 1988

FIGURE 7.1

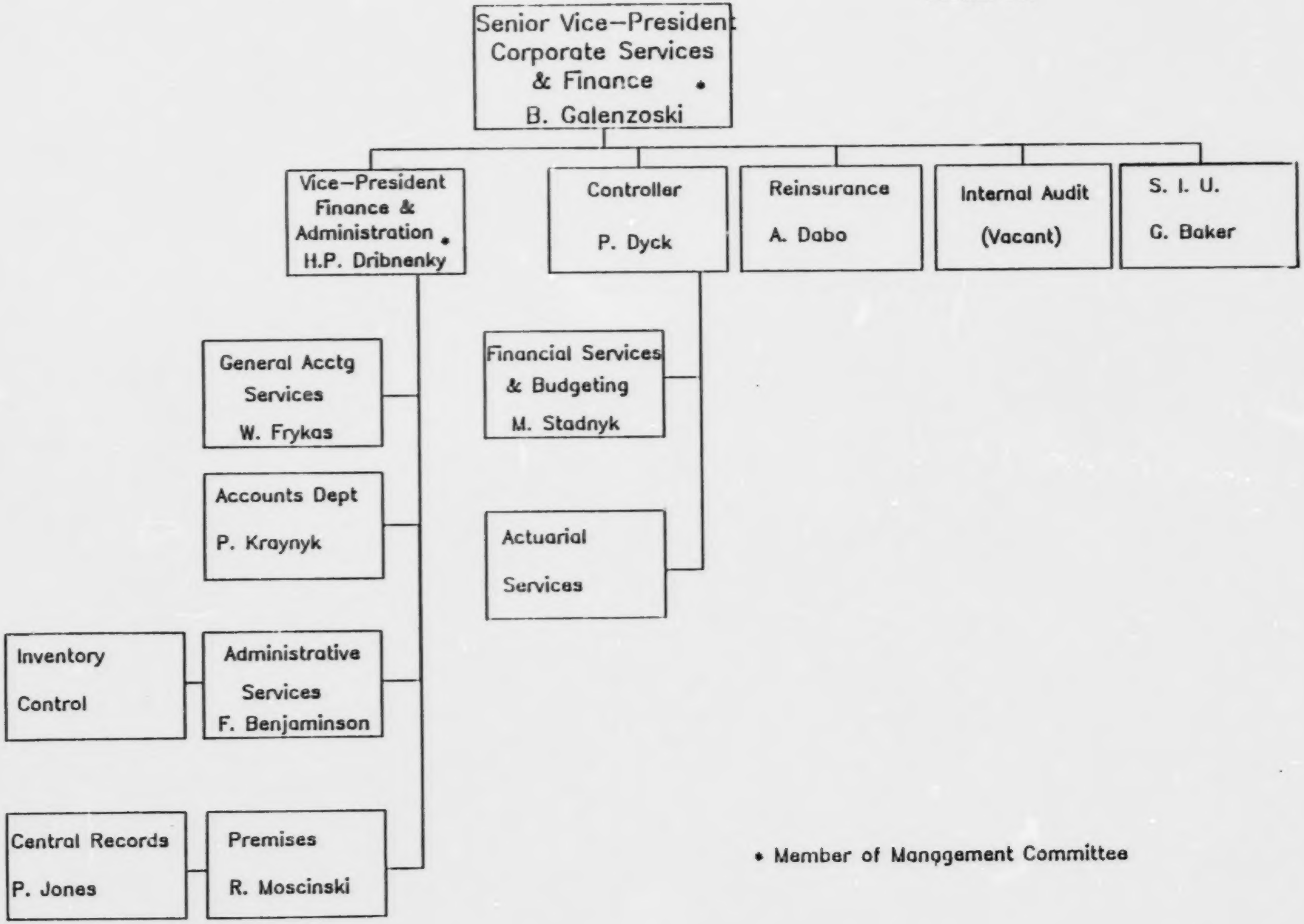
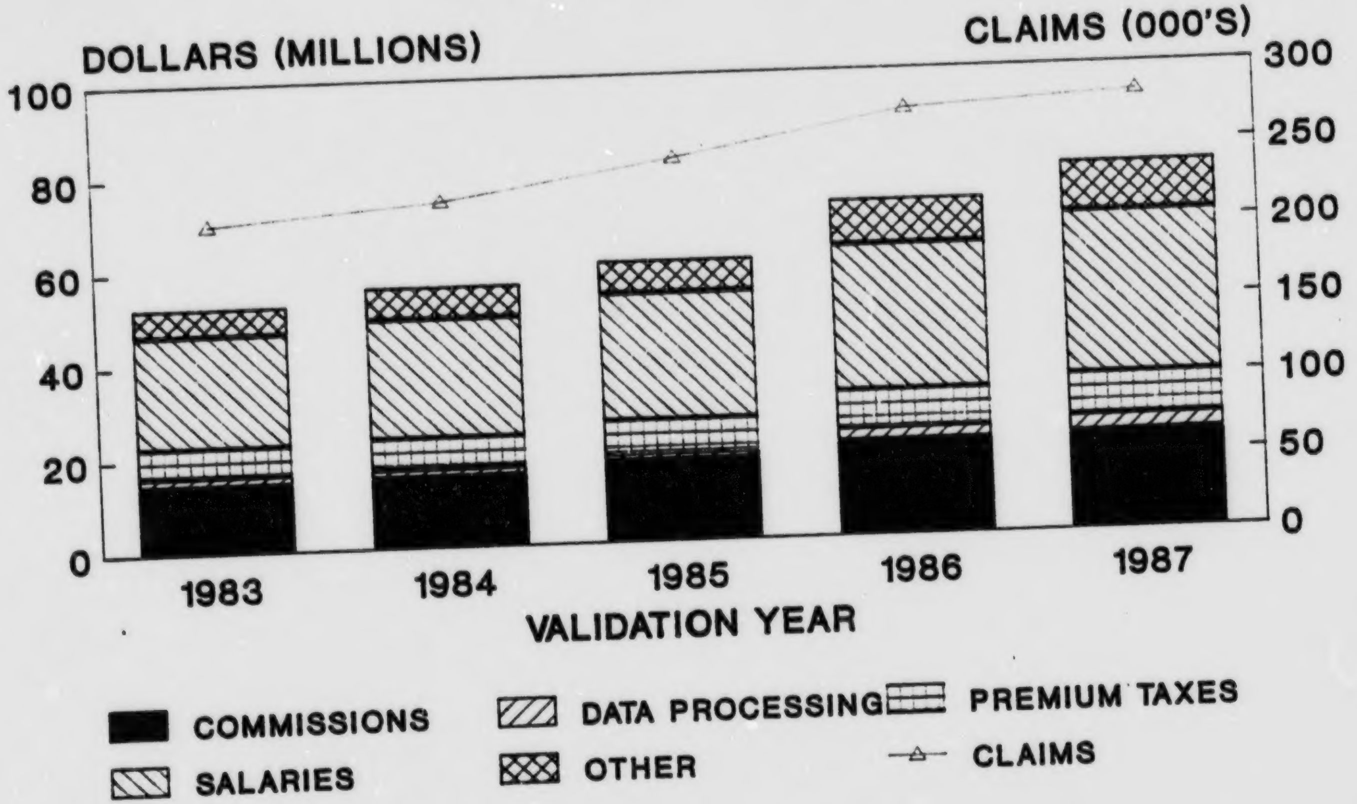

Senior Vice–President Corporate Services & Finance • B. Galenzoski
Vice–President Finance & Administration • H.P. Dribnenky
Controller P. Dyck
Reinsurance A. Dabo
Internal Audit (Vacant)
S. I. U. G. Baker
General Acctg Services W. Frykas
Accounts Dept P. Kraynyk
Administrative Services F. Benjaminson
Inventory Control
Premises R. Moscinski
Central Records P. Jones
Financial Services & Budgeting M. Stadnyk
Actuarial Services
• Member of Management Committee

FIGURE 7.2

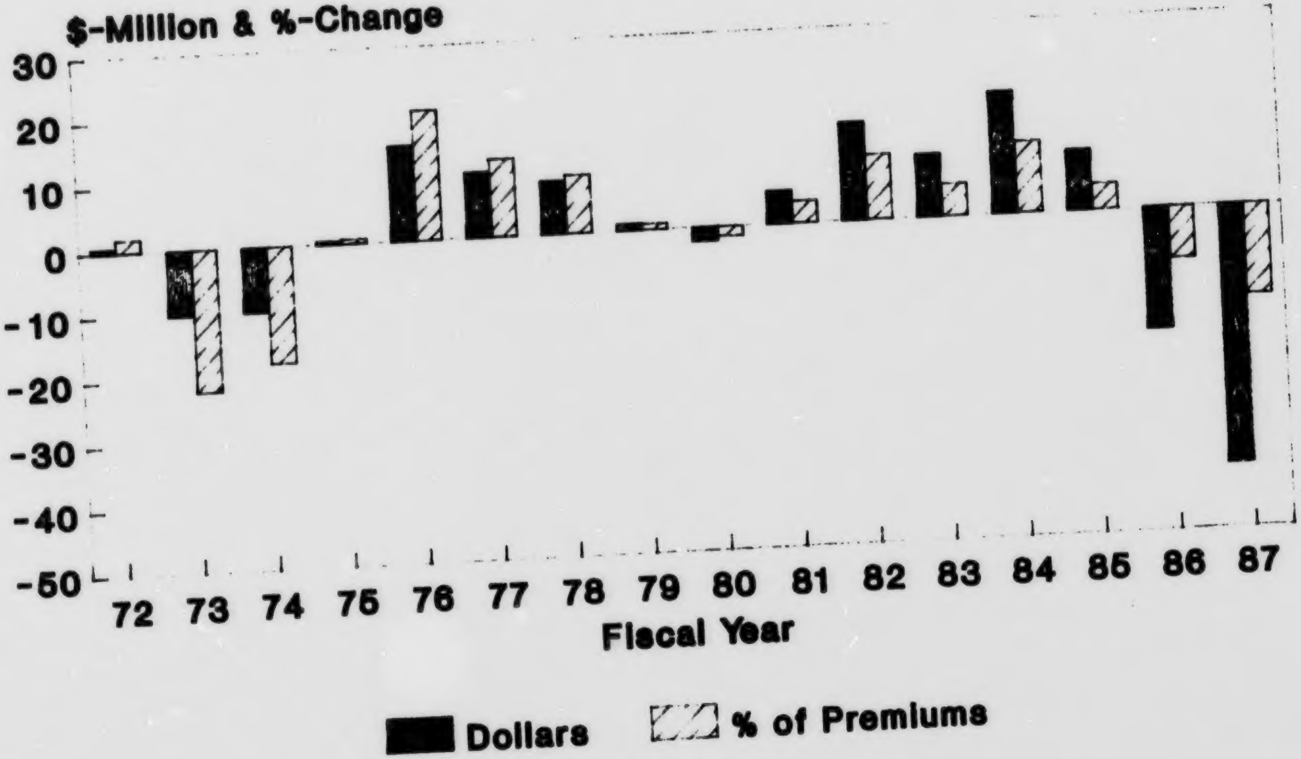
SCHEDULE OF EXPENSES
FOR THE PERIOD 1983-1987
Compared to Basic Claims



SOURCE: MPIC ANNUAL REPORTS

FIGURE 7.3

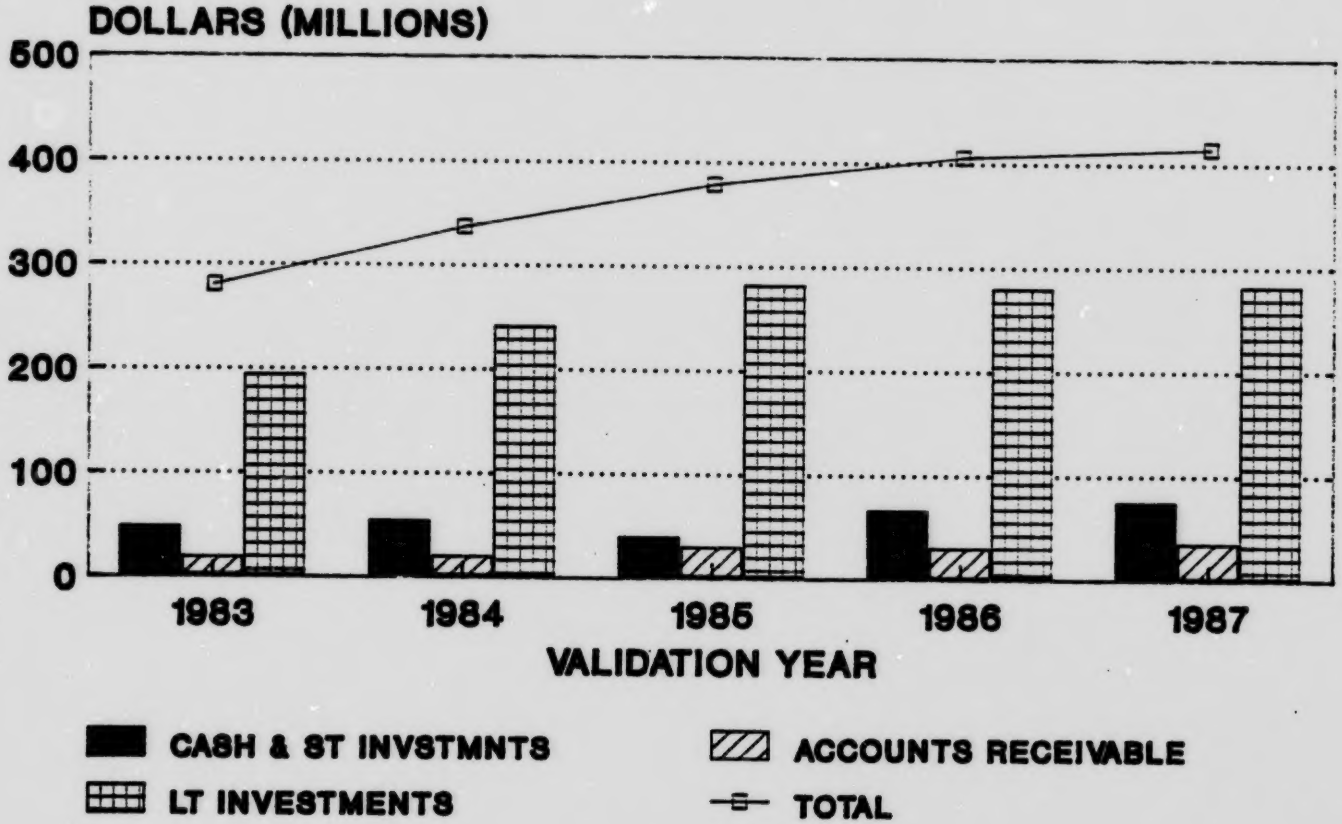
AUTOPAC REVIEW COMMISSION
MPIC Profits and Losses
Dollars & Percent of Premiums Earned



Source: MPIC & Thorne Ernst Whinney

FIGURE 7.4

TOTAL ASSETS
FOR THE PERIOD 1983-1987



SOURCE: MPIC ANNUAL REPORTS

AUTOPAC REVIEW COMMISSION

POSITION PAPER NO. 8

IMPROVING THE MANAGEMENT OF HUMAN RESOURCES

Submitted to: **Honourable Glen Cummings**

Submitted by: **Judge Robert Kopstein**

AUTOPAC REVIEW COMMISSION

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I. INTRODUCTION

The Autopac Review Commission assessed the organization and staffing of The Manitoba Public Insurance Corporation (MPIC). While the commission's terms of reference pertain directly to Autopac, there is, within the administration of the corporation, shared responsibility for both automobile and general insurance lines. The commission, therefore, found it necessary to evaluate organization and staffing from a corporate perspective. In doing so, however, the commission's main focus of attention has been the adequacy of organization and staffing for the provision of automobile insurance.

To assess the management of human resources, the commission drew upon documents submitted by the corporation, upon the results of interviews the commission staff held with senior managers and, finally, upon reports prepared by our consultants. In conducting research with the assistance of consultants, the commission sought to put before the public both facts and informed opinion. Consultants' reports provided but one source. Where the commission's opinion has differed from that of the consultants, I have presented both the original advice and my reasons for not accepting it.

The main consulting report on management of human resources was prepared by Professor Terry Hercus who examined closely the corporation's training programs. In 1979, Professor Hercus carried out a similar study for the ministerial committee that reviewed the corporation. The information presented in this position paper reflects the situation in the early summer of 1988. Since the corporation then intended to appoint a new chief executive officer, the reader should be aware of changes in the organization that may have taken place after this paper was prepared.

II. HUMAN RESOURCE MANAGEMENT GOALS

The most fundamental tenet of modern management theory is that employees are an organization's most important resource. Each staff person is seen as having the potential to contribute to the greatest practical extent. To achieve this, organizations endeavour to assess the potential of an employee and then put in place the tools and structure that will allow this potential to be realized. Both jobs and the capabilities of individuals are considered to be dynamic. That is, they can be matched as the need arises to achieve the best possible results. They also can be changed. Job descriptions can be revised and employee skills can be upgraded. Consistent with this approach, most organizations pursue the following human resource management goals:

- Development and maintenance of position descriptions that encompass an organization's need for staff skills and experience.

- Development and maintenance of an up-to-date inventory of the capabilities of employees.

- Use of staff training to enhance employee skills so that existing staff may be helped to assume more demanding positions.

- Recruitment of new employees when staffing needs cannot be met internally.

- Provision of employee compensation that is economical and fair.

- Implementation of financial and other rewards for employees who meet or exceed performance expectations.

- Consistent and equitable resolution of conflicts between the corporation and its employees, including disputes between supervisors and subordinates.
- Establishment of working conditions and opportunities that will permit the organization to attract and retain competent staff.

The commission evaluated the corporation's management of human resources in terms of these primary objectives. These objectives served implicitly as also the foundation of the study of organization and staffing carried out by the ministerial insurance committee in 1979. Along with its other findings, therefore, the commission presents its assessment of the corporation's progress in meeting its goals made since then.

III. CURRENT ORGANIZATION AND STAFFING

The following is a description of the structure of the corporation, its staffing and the changes that took place in these regards both immediately before and during the commission's review.

A. ORGANIZATION STRUCTURE

On March 7, 1988, the minister responsible for The Manitoba Public Insurance Corporation announced major organizational changes. The first was the creation of a large, single insurance operations division. This replaced the three former separate divisions: automobile insurance, general insurance and reinsurance. Second, two managers were promoted to the new rank of senior vice president. They are now responsible for most of the corporation's staff and business activities. Thus, with the disbandment of the three former divisions, members of the senior staff are now responsible not for specific insurance products, but for particular functions in support of both automobile and general insurance products.

The minister said that the changes were intended to improve accountability and strengthen strategic planning and policy development. Accountability, at the senior management level, was expected to increase because two senior vice presidents were given most of the top managerial responsibilities.

This was done to give the chief executive officer more time to maintain contacts outside the corporation. How strategic planning and policy development are improved is less clear although the responsibility for these has now been explicitly assigned to a senior manager who reports directly to the chief executive officer.

Through this restructuring, MPIC hopes that because two senior vice presidents have assumed some of the authority previously held by the chief executive officer, less of the chief executive officer's time should be needed to make decisions about operational or financial issues. He or she should have more time to consider information systems, planning and personnel matters.

There is a direct reporting line between the chief executive officer and the managers who are individually responsible for the systems and personnel functions. This is significant because it puts the chief executive officer in a strong position to direct changes in these two functions. The influence of the two managers responsible for information systems and human resources is also greater since they now have immediate access to the chief executive officer. Changes in job responsibilities and reporting relationships, due to the movement of staff, are probable if the corporation is to undergo further reorganization. Exhibit 1 is a chart of the new organization.

The commission's human resources management consultant reported that there are too many levels of management in the corporation. He proposed that managers should be given broader spans of control. The commission does not share that view because the new structure already provides for broad spans of managerial control. Following the reorganization, announced March 7, the corporation introduced a more level structure of management than was previously in place. Six vice-presidents or senior managers now report to the chief executive officer. The commission believes the problem may be less one of span of control than the distribution of senior management responsibilities as described in the following section.

Related directly to the question of span of control is the delegation of responsibility. If the span of control of a manager is to be widened, in most cases it will be necessary for that manager to delegate more of his or her responsibility to those persons who report to him or her. At the time of the re-organization in March, the corporation increased the delegation of authority and responsibility to lower levels of management. I was informed by the corporation that further steps to delegate authority were taken during the present summer; these, however, were mostly procedural changes rather than structural. Due to these initiatives, the commission is reluctant to adopt the recommendation of its consultant that there be further delegation.

B. STAFFING ESTABLISHMENT

The corporation has staff in 11 cities and towns (Exhibit 2). As of May 1, 1988, MPIC employed 1,130 persons. Of these, 35 were employed as temporary staff and nine others were on extended leaves due to sickness or disability.

There where 13 unfilled positions. Because temporary employees made up less than four percent of the total number, I have used data on permanent staff only in the analysis below.

The main classes of staff employed by the corporation are:

- Managers and supervisors.
- Underwriters who determine whether an insurable risk should be accepted by the corporation and, if so, the amount of premium that should be charged.
- Claims adjusters who are responsible for negotiating settlement of claims for:
    - vehicle damage
    - bodily injury
    - third party property losses, and
    - general insurance losses.
- Estimators, who assess needs for vehicle repairs.
- Clerical workers.
- Systems analysts and programmer analysts.
- Accounting staff.
- Staff in assorted other professional and technical fields.

The number of permanent staff employed by the corporation in early May is shown in Exhibit 3. These are presented both in terms of the preceding classifications and by their assigned division or department. Most of MPIC's staff do claims work. Of the 1,086 full-time staff, 607, or 55.9 percent of the total, worked in the claims department. Two major staff classifications, adjusters and clerical workers, accounted for 697 employees, almost two-thirds of the corporation's staff.

In 1987, the corporation compared the productivity of its staffing establishment with those of the Saskatchewan Government Insurance (SGI) and the Insurance Corporation of British Columbia (ICBC). It found that MPIC employees had written an average of $265,700 of premiums per employee. That figure was within one percent of the average value for all three public insurers. Thus, MPIC's staffing does not appear excessive when measured in this manner.

The commission's main interest was that part of the organization that supports Autopac. It was difficult to determine how many of the corporation's staff were assigned automobile insurance work. Many employees have responsibilities that encompass all the lines of insurance provided by the corporation. Inevitably, staff who provide common corporate services, such as those of the corporate and financial services division, frequently carry out tasks related to general insurance and reinsurance as well as Autopac. While the corporation certainly maintains attendance records, it does not monitor how much staff time is being spent on work on different insurance activities. For instance, MPIC does not record time spent by adjusters on different types of bodily injury claims that may take years to resolve.

During the commission's hearings, members of the public expressed concern that MPIC's general insurance activities were a drain on other parts of the corporation. They suspected that Autopac revenues were being used to finance general insurance. Since the commission's mandate was to examine Autopac activities, it was necessary to determine what the corporation's staffing commitment was to providing automobile insurance. However, this could not be done without establishing the numbers of employees who are engaged in other insurance activities. The commission determined that, on May 1, there were 114 staff who were employed in four general insurance departments. These were responsible for personal lines, commercial underwriting, general insurance claims and special risks extension. However, a significant part of the time of the 25 employees in the special risks extension section was given to working on motor vehicle extension coverage. This is comprised of insurance on truck fleets and other vehicles when special underwriting is needed as well as Autopac extension coverage when this is sold separately from basic Autopac insurance.

The commission considers the corporation's commitment of staff to non-Autopac related duties to be relatively small. I am advised and accept that at least 90 percent of the corporation's staff is committed to Autopac or to extension insurance that is offered in conjunction with Autopac. Moreover, based upon the corporation's separate accounting for non-automobile insurance, there is no evidence that automobile insurance revenues have been used to finance the costs of staff who work in other insurance fields.

C. EFFECTS OF RECENT CHANGES

For most of its history, the corporation has maintained separate divisions for its major lines of insurance. However, in March 1988 it reassigned the staff of the automobile insurance division, general insurance division and the reinsurance division. The two main operating divisions are now called the insurance operations division and the corporate services and finance division. Based upon the corporation's staffing on May 1, these accounted for 79.4 percent and 10.5 percent respectively of the corporation's total permanent staff.

The current complement of senior vice-presidents and vice-presidents has led to a two-tiered executive structure. This is comprised of, first, an executive committee made up of the chief executive officer and the senior vice-presidents and second, a much larger management committee comprised of the members of the executive committee, all other vice-presidents and some senior managers.

Concurrently with its recent reorganization, the corporation has experienced a sharp decline in the number of claims. The decline has occurred as a result of the increased deductibles for vehicle damage introduced March 1, 1988. The frequency of lower value claims has dropped. The corporation expects that claims frequencies will rise somewhat but not to the same levels as in recent years. Consequently, the corporation has excess claims processing capability. It intends to reduce the size of its claims staff through attrition.

Finally, due to the reorganization, the manager responsible for the human resources department now reports directly to the chief executive officer. This means that the corporation's most senior manager can have both broader and more detailed influence over the corporation's human resources management. At the same time, the human resources staff are now in a stronger position to gain the support of the chief executive officer and other senior managers. As already noted, this could become very important if the corporation is further reorganized.

D. ASSESSMENT OF THE NEW STRUCTURE

The insurance operation division is large and diverse. While conceptually it may be beneficial to combine all automobile and general insurance operations within one division, I do not think it is practical for MPIC. When the insurance operations of claims processing, underwriting and policy services are combined, they represent almost four fifths of the corporation's work. The main problem is not simply imbalance in the numbers of staff in each division. Rather, it is the lack of comparability of the executive responsibilities of the various division and department heads who report directly to the chief executive officer. Two senior vice presidents clearly carry much weight. Reflecting their rank and the organization, only infrequently would they depend upon the chief executive officer for a decision. This is not true for the more junior vice presidents and senior managers who report to the chief executive officer. Lacking the same authority as the senior vice presidents, they must look to the chief executive officer more often for guidance and approval of decisions they cannot make on their own authority. For instance, it makes little sense that the chief executive officer must approve some actions of departments that report to him or her when those same approvals are not required of the divisions led by senior vice presidents. In principle, demands upon the chief executive officer should be filtered. Ideally, only those matters should be presented to the chief executive officer that depend for resolution upon that person's exclusive authority. Even though in practice it may not be possible to achieve this perfect delegation, it is still a desirable goal.

Greater comparability of authority at the first level of management under the chief executive officer would strengthen the management group. The current structure divides the managers who report to the chief executive officer. First, there are the senior vice presidents, who, along with the chief executive officer, exercise superior authority. The second group is made up of junior vice presidents and senior managers. They have less authority and more restricted access to the chief executive officer. I believe there is too much potential in this for excessive hierarchy at the highest management levels. If these managers are to work as a team, they should see each other as peers. The current structure does not reinforce this perception.

In considering organizational alternatives, it is always difficult to determine the extent to which the chief executive officer should have a role in day-to-day operations. If the chief executive officer is to contribute to the development of plans and be a part of senior-level contact with other organizations, it is best that he or she delegate operational responsibilities as much as possible. However, there are certain business operations that are so fundamental to any business that it would be a mistake to underplay the chief executive officer's responsibility for them. The commission was informed that this was the reason why two departments -- the ones responsible for public relations and information systems -- report directly to the chief executive officer. In view of this, I found it somewhat surprising that the corporation's major operations, namely the processing of claims, did not so report. The claims department, as noted, is responsible for the majority of the corporation's work. It is also the basis of the most significant contact that takes place between policyholders and the corporation outside of renewals. Because Autopac claims work is so dominant, I believe the corporation should consider carefully elevating the head of that department to senior rank and, in so doing, provide for the department to report directly to the chief executive officer.

The commission believes that there should be a different division of managerial responsibility. The corporation could achieve greater comparability among divisions in a number of ways. As already proposed, reflecting the volume and importance of Autopac claims work, the corporation could elevate the claims department to divisional status. Alternatively, MPIC could transfer responsibility for non-Autopac work to a separate division led by a third senior vice president.

Another option would be to transfer departments in either of the two major divisions to one or another of the smaller departments that report directly to the chief executive officer. For instance, responsibility for marketing Autopac, now a responsibility of the insurance operations division, could be assigned to a reorganized community and corporate services department. Following this, the department would need to be appropriately renamed.

I have described my reservations about the current structure. I am informed, and it should be noted, however, that every corporate organization depends upon compromise. The result is always that some organizational design objectives will be satisfied better than others. I am informed that the corporation's reorganization was constrained by several significant facts. At the time of the March re-organization and subsequently, the corporation's most senior manager has had acting status. Also, early in 1988, there was great urgency due to the major changes that had to be made to the corporation's business systems to accommodate the merit premium reduction and other initiatives. There was immediate need to consolidate those parts of the organization upon whose efforts the success of these changes depended. Finally, an election was called within weeks of the reorganization. From that point, until the previous board was replaced by the new government, the board of directors became

> significantly less important in directing the corporation. Solely on their own authority, management could only go so far in implementing the changes. For example, the senior management had little room to make significant changes in personnel to strengthen those parts of the corporation that, following the reorganization, were found to be weak. I am advised that such adjustments are almost always necessary following major organizational changes. While the reader should not consider the preceding difficulties as a justification for the current structure, I do not wish to oversimplify the problems of reorganization. Certainly, although I disagree with certain aspects of the reorganization, I accept that there were arguably valid reasons, from the corporation's perspective, to make the changes it did.

As the commission completed its review, it was informed by the corporation's officials that the organization had been adjusting to many internal changes implemented prior to and during the earlier part of the review. Understandably, MPIC's employees have been concerned about the corporation's future as well as their own. It can be acknowledged, however, there has been a noticeable improvement in staff morale. Based upon statements made by the corporation's staff to my consultants and me, I believe that improvement is due to recent stabilizing initiatives.

IV. HUMAN RESOURCE MANAGEMENT POLICIES AND PRACTICES

In the past 17 years, The Manitoba Public Insurance Corporation has developed considerable maturity in many of its functions including the management of human resources. This was revealed by the findings of the commission's consultant who had first evaluated the corporation's staffing practices in 1979. He was able to assess the corporation's progress since then in making many needed improvements.

A. RECRUITMENT

The corporation has recently experienced relatively little turnover in staff. Expressed as an annual rate, the corporation has had a turnover of approximately three percent in its management, and roughly 10 percent among its clerks. Up to the spring of 1988, the overall average annual turnover rate had been 7.4 percent. This compares to an annual turnover rate of 16 percent reported by the commission's consultant in 1979. The corporation has tended to appoint members of its existing staff to middle and senior positions. Thus, the corporation's recruitment priority has been meeting staff needs at the entry levels. These are mostly lower level positions that are filled by new employees. If these staff members perform well, they can be promoted to more senior and better paying positions within the corporation. Most of the entry level recruitment has been the hiring of clerical workers.

The corporation has formal procedures for hiring. Position descriptions exist for all positions. As vacancies occur, job bulletins are prepared and posted. In keeping with the corporation's collective agreement, decisions are taken on whether the vacancy should be filled by a member of the current staff or by a new recruit. In both cases, a competition board is set up. Typically, this is comprised of the supervisor responsible for the position to be filled, a representative of the human resources department and occasionally, other corporate staff. The commission was informed that these procedures are used consistently.

The commission's consultant recommended that there be training for staff who serve on the panels that screen job applicants and recommend selection. The corporation does not believe that this is a major need. Instead, they propose the panels be used more selectively. For example, for clerical positions, a panel could be constituted to review applicants for a number of clerical positions at the same time. It is also important to consider that MPIC's employees have become far more familiar with the panel system in the past year or two. Many employees of the corporation have now served on applicant screening panels. Notwithstanding this progress, memories persist of the corporation's initial problems in adapting to the use of staffing panels. On balance, I conclude that the burden of the panel system is manageable especially in relation to the benefit of greater impartiality in recruitment.

The commission's human resources management consultant recommends that there be greater opportunity for career advancement within the corporation. He observed that promotion opportunities of some staff are limited because they had reached the highest levels attainable within the job classification under which they were employed. The consultant recommended that the corporation examine means to allow lateral transfers to provide such employees with the ability to move into another area with greater opportunities for advancement. The commission found that the corporation has, in fact, made those opportunities available in some cases.

For example, experienced claims staff had been reassigned to more senior positions in the community and corporate services division as well as in other parts of the corporation. MPIC has attempted to ensure that their claims knowledge was also a requirement in the new positions to which these employees were transferred. There may be only limited potential to provide staff with more career alternatives within the corporation by reassigning staff in this manner. Having invested in the training of technical specialists, such as claims adjusters and estimators, MPIC would gain little by assigning these staff to unrelated tasks.

Every organization needs to decide upon the role recruitment will play in meeting requirements for staff. On one hand, most employers try to provide attractive career opportunities to current staff by promoting from within whenever possible. If suitable training is provided, this approach can encourage staff motivation and commitment.

Conversely, there is a need to bring new skills and perspectives into an organization. By hiring persons who have worked in different organizational settings, an employer can rejuvenate the pool of skills and experience within the organization. The commission believes the corporation, with the exception of some managerial and systems staff positions, has almost always filled non-entry positions at supervisory and lower levels with internal candidates. Appointments at higher levels have included significant numbers of candidates both from within and outside MPIC. The commission endorses promotion from within but is concerned that ingrown development of MPIC may stifle the infusion of ideas that new staff with experience in other sectors of the insurance industry, both public and private, might bring.

Recommendation No. 8.01: That the corporation consider opportunities to attract a modestly higher proportion of applicants from outside the corporation, especially for supervisory, technical and professional positions, and further, to give effect to this recommendation, that the corporation advertise for both external and internal candidates for all positions with the rank of manager or higher.

B. STAFF DEVELOPMENT

I earlier described the corporation's commitment to filling positions, whenever possible, by promoting from within.

This method is used to fill all vacancies for adjusters. The staffing progression is as follows:

- At the entry level, hiring clerical workers from outside the corporation.
- Promoting clerks through the clerical classification series.
- Hiring, from within, adjuster trainees from the corporation's pool of senior clerks.
- Promoting adjuster trainees to adjuster positions.
- Promoting adjusters to senior adjusters positions.

To support this staff mobility, the corporation has developed its own training program for adjusters. This is a two year process from the time an adjuster trainee is appointed. The training is based solely upon the corporation's own curriculum and no use appears to be made of training materials developed for adjuster accreditation programs recognized by private insurance companies.

I understand, however, that the corporation's training program for adjusters is highly regarded by other public insurance organizations, specifically ICBC and SGI. I was informed that on at least two previous occasions the two sister corporations made specific efforts to recruit adjusters who were employed by MPIC.

I find no reason to recommend any change in the training and promotion of adjusters. There is however a need, acknowledged by the corporation, to develop better adjusting skills concerning motorcycles and large trucks. That need is not identified by the commission's consultants, but nonetheless it is one which should be addressed.

Recommendation No. 8.02: That the corporation actively pursue avenues through which to improve the skills of its adjusters in processing motorcycle and large truck claims.

The commission's human resources consultant found that work was needed to strengthen training outside the claims adjusting field. I was informed that there are needs for:

- Clarification of the respective responsibilities of the human resources department and the planning and corporate information systems division in providing technical training to project managers, systems analysts and programmer analysts.

- Provision for more education in management studies to managers and senior supervisors.

- Evaluation of the benefits of maintaining support for life-skills training such as personal financial planning, stress management and other personal topics.

- Design and improvement of courses on end-user computing including training on how to use:

  - Word processors.
  - Personal computers.
  - End-user reporting and query facilities on the mainframe computer system employed by the corporation.

I believe that the initiative for constructively identifying needs for training programs lies with staff in the parts of the corporation that will use the training. The role of the human resource department should be supportive rather than prescriptive.

Recommendation No. 8.03: That the human resources department be responsible for the provision of staff development services rather than development per se of staff skills; and further, that the department do this by:

- Assisting managers and senior supervisors to define training needs.
- Maintaining lists, written descriptions and other documentation of training resources and regularly updating and publishing them to reflect new courses or other resources.
- Assisting other parts of the corporation to make suitable arrangements for training.

Some training, however, should be provided directly by the department to all employees. For economy and consistency, the human resources department should retain exclusive responsibility for orientation of new employees, staff briefings concerning employment benefits and instruction in corporate policies and procedures governing all staff. However, all training should demonstrably serve business objectives. Therefore, any training that falls outside of the corporation's normal staff development program should be approved by a senior manager in the trainee's department or division.

Needs for staff training can be identified in two ways. First, changes in business plans may require that the corporation develop new operating capabilities. To build these, the corporation may adopt training that will allow existing staff to carry out new work tasks. For example, if a new computer system is being implemented in one part of the corporation, plans are usually made to train all affected staff. The second way that training needs can be identified is from the process of employee performance appraisals. These appraisals allow very specific requirements to be identified. For example, there may be a need to teach an employee how to adjust claims of a particular type, such as damage claims on commercial vehicles. The corporation already has a formal employee appraisal system. If the MPIC is to realize the full potential of employee appraisal, there needs to be direct linkage between performance evaluation, the specification of training requirements and subsequent decisions on a training plan. The commission's human resources management consultant recommends that the corporation make greater use of its staff appraisals to identify staff training needs. I am informed that the corporation shares this belief.

While the commission accepts that there should be a closer relationship between employee appraisal and the preparation of training plans, I believe that little would be gained by doing this before the corporation has strengthened its staff training in those areas in which needs have already been identified. Specifically, I believe the corporation must first take steps to provide more technical training for staff. I am informed that there is a need for technical education of information systems staff and estimators at the Autopac claims centres. Employees responsible for developing information systems have special requirements. Through Manitoba Data Services, new software is routinely made available to MPIC and other government organizations. Both systems staff and users normally require education before full benefit can be taken of new data processing tools.

Many of the corporation's estimators received training in the automotive trades at a time when little use was made of the designs and materials now found in newer vehicles. During the commission's public hearings, I was informed that the corporation's claims staff would benefit from greater technical expertise in estimating motorcycle and large truck claims. Training would help such staff to specify needed repairs. Finally, as one component of strengthened ratemaking, as I recommend in Position Paper No. 4, I believe automobile insurance underwriting needs more recognition both as a corporate activity and as a staff development requirement.

Recommendation No. 8.04: That the corporation commit itself first to strengthening the technical content of its staff development by improving training in estimating, adjusting and information systems.

Once this goal has been achieved, the corporation can consider how the linkage can be improved between employee appraisal and staff training.

C. EMPLOYEE COMPENSATION

The commission had neither the opportunity nor the resources to conduct a survey of the compensation and benefits that the corporation should offer its employees. For this, the commission would have had to conduct a formal evaluation of each position. Based upon the contents of each job, surveys would then have been required to ascertain the compensation paid for comparable jobs in similar labour markets. The commission found that the corporation had already started a comprehensive evaluation of jobs throughout the corporation. With the assistance of a major consulting firm, the corporation is assessing all but senior executive positions. These were evaluated separately early in 1988 by another major consulting firm. Thus, virtually all positions will be examined that currently fall within or outside the scope of the corporation's current agreement with the Manitoba Government Employees' Association.

The job evaluation study, when complete, will provide information that the corporation can use to conduct compensation surveys. One of the purposes of the study is to help establish what is known as job relativity. This is a rank ordering of positions by responsibility and a comparison of the relative requirements for staff skills and experience across the ranks surveyed. Once positions have been so ranked, the corporation can index them to prevailing salaries and benefits. A basis is then created for determining whether existing salaries for jobs with similar responsibilities are similar.

Notwithstanding the current job evaluation, the corporation has carried out salary reviews in the past. Frequently, MPIC has compared its salaries to those offered by Saskatchewan Government Insurance and the Insurance Corporation of British Columbia. The corporation provided to the commission an analysis of the salary ranges specified in collective agreements covering employees of MPIC, SGI and ICBC. Since many of the classifications used by MPIC cannot be matched exactly to classifications adopted by the others, it is difficult to make direct comparisons. Nevertheless, the corporation found that salaries at ICBC were approximately 10 percent higher than those offered by MPIC. SGI offered salaries that were approximately three percent lower than those at the Manitoba corporation. Based upon these findings, the commission believes that MPIC's pay scales are competitive, at least in terms of the compensation offered by other public insurance companies. To a lesser extent, comparisons have also been made with clerical and other salaries provided by insurance companies and other organizations. The commission's information is as follows:

- Except for corporate finance managers, MPIC offers its senior managers substantially less than private insurance companies provide to persons holding comparable positions.

- The salaries offered to lower level managers and their staff appear too close in value; with overtime, employees may draw salaries in excess of those of their supervisors who may be ineligible for overtime pay even though they may have worked longer hours.

- The salaries paid to clerical staff compare to those paid by other provincial government organizations; these may be as much as 20 percent higher than salaries paid by private employers.

Whether or not subsequent compensation surveys reveal opportunities to lower, or needs to increase salaries, such adjustments would have a relatively minor effect upon the corporation's total operating costs. The commission estimates that even major changes in compensation would decrease or increase Autopac operating costs by less than one percent. Therefore, while the corporation should always examine means to make its compensation competitive, savings in salaries and benefits should not be seen as a major opportunity to alter requirements for premiums.

The commission's human resources management consultant recommended that clerical salaries at MPIC be held at current levels, arguing that these salaries -- along with those of most other public sector organizations in Manitoba -- may exceed those offered by private insurance companies by as much as 20 percent. The commission rejects this recommendation because it is not sufficiently supported by any study known to the commission or referred to by its consultant. Moreover, due to the risk of losing clerical staff to other government organizations, it would be unwise for MPIC to attempt independently to lead the Manitoba public sector to lower salaries for clerical staff. In any event, the results of the collective bargaining process must prevail unless it is suspended by legislative action.

Recommendation No. 8.05: That MPIC, once it completes its job evaluation project, conduct salary surveys to determine whether the findings support the current compensation structure, and, if not, that MPIC assess, in consultation with the Manitoba Government Employees Association, opportunities to adjust its compensation structure as staff turns over.

D. EMPLOYEE EVALUATION

The corporation uses a method for evaluating employees that is used by many large organizations. MPIC has refined its employee evaluation system. Based upon recommendations made by a major consulting firm in 1987, the corporation introduced a new appraisal form and procedures. The following process is used:

- Every employee's position is determined in a salary range that has been set for a job classification attached to that position.
- For any employee not yet in the highest paid step in the salary scale for that classification, the supervisor is asked to recommend whether or not the employee should be advanced to a higher step, usually on the anniversary of his or her employment.
- Using a performance appraisal form, the supervisor records his or her assessment of the employee's work abilities, goals and training needs.

- The employee reviews the appraisal and may signify his or her agreement.

- If the employee has met expected performance standards, the supervisor recommends that a salary increment be paid.

- Upon receipt of the written recommendation of the supervisor, the employee's payroll entitlement is increased by the amount of merit increment.

Performance salary increments are normally offered to all deserving employees who are not yet at the top of their respective pay scales. Justification is required if a supervisor believes a salary increment should be awarded or withheld. Denial of an increase is recognized as sufficient grounds for the employee to make a grievance under the collective agreement. Although employees of the corporation who are not covered by the collective agreement cannot seek redress by means of a grievance procedure, they are appraised and awarded or denied increases in salary in much the same way as union employees who are protected by the agreement.

The corporation is still adjusting to the new employee evaluation system. Managers and supervisors are concerned about the extra time they must now spend on staff appraisals. This, I am informed, is a normal reaction to the demands of a new evaluation system. MPIC's human resources manager advised the commission that, in time, as staff become more familiar with the procedures and forms, these concerns should be alleviated.

I believe the system used by the corporation to determine whether or not a performance increment will be paid is appropriate. The corporation informs me that it is a true test of employee performance in accordance with standards that have been accepted by both employees and supervisors. The supervisor and his or her subordinate must reach agreement upon the evaluation or, at least, acknowledge any differences of opinion that may exist. Employee evaluation is a demanding process. If it is to work, the supervisors and their staff must set aside the time needed to prepare evaluation documents, discuss their contents and make revisions. Then, depending upon compensation policies, decisions must be made on performance-based salary increases. The staff appraisal mechanism is appropriate and appears to function well.

The commission's human resources management consultant recommended that the corporation consider a merit pay mechanism that would be more flexible than the current step-based salary ranges. Differences in salaries between consecutive pay steps are relatively small. Due to internal controls and past practices, it is difficult for the corporation to promote an employee more than one step at a time. Elsewhere in this paper, I recommend that the corporation conduct salary surveys after it completes the job evaluation. I believe that MPIC should also assess its merit pay practices.

As mentioned, the corporation is conducting an in-depth evaluation of the relativity of job positions in terms of job responsibilities, skills requirements and other factors. It is important to note, however, that MPIC is not evaluating employees -- it is evaluating only their jobs. Although job evaluation and employee performance appraisal are distinct activities, there is an obvious relationship between the different sets of criteria used for each type of assessment. The refinement of criteria now used for employee performance appraisal should be the next step after job evaluation.

Recommendation No. 8.06: That MPIC, on completion of the current job evaluation, revise its employee performance appraisal system to incorporate any new or changed criteria derived from the performance requirements.

The commission's human resources management consultant advised that the respective rights and obligations of non-union employees and the corporation should be more clearly defined. Currently, the corporation has an extensive manual of general administration. Within this, various corporate policies and procedures are described as is their application to either union or non-union employees. A further prescription of employee and employer rights and obligations is set out in the collective agreement that was negotiated by the Manitoba Government Employees Association and the corporation. Non-union employees do not have the protection this agreement provides. Specifically, there does not appear to be a prescribed and independent channel through which non-union employees may make complaints except by appeal to their immediate superiors. There is no equivalent to the grievance procedure provided for in the collective agreement. This is a specific deficiency that I believe should be corrected.

Recommendation No. 8.07: That the corporation develop policy and procedures that will permit non-union employees to present complaints or concerns for resolution to an independent and appropriately empowered authority.

E. COLLECTIVE BARGAINING

The Manitoba Government Employees Association is the exclusive bargaining agent on behalf of the corporation's employees. At the beginning of the term of the corporation's current agreement with MGEA (October 1, 1987), there were 993 unionized employees. The current agreement has a three year term and provides for annual increases of three percent each in the first and second year. In the final year, salaries are to be increased in accordance with the cost of living. The corporation informed the commission that, in the past, salaries of approximately 140 managerial and supervisory staff employees have not increased as much as the salaries of employees represented by MGEA. Consequently, the corporation believes that the salary difference between the two groups of employees has become too small.

I was advised that the corporation believes that it has little flexibility within which to negotiate salaries. It considers the main constraint to be a need to maintain comparability to salaries paid by other Manitoba Crown corporations and departments of government. The commission's findings support this conclusion in part. It is true that the corporation has been governed by a requirement that all Manitoba Crown corporations seek consent from the compensation committee of cabinet before making changes to salary scales. Many of the corporation's unionized positions, however, especially for vehicle damage claims staff, cannot be compared to positions in other Crown corporations or government departments. For these positions, I do not accept that the corporation is constrained by compensation practices adopted by other Manitoba government organizations.

Recommendation No. 8.08: That MPIC attempt to fix compensation -- by reference to criteria accepted by other insurance organizations -- for those positions within the corporation for which no equivalent positions exist in any other government organization.

The commission's consultant met with representatives of both MGEA and MPIC to discuss the working relationship between the two. While recognizing that there are contentious items in collective agreements, the corporation and the association believe that they have good relations. Both organizations believe they have appropriate access to the other. The grievance process is seen by both to be constructive.

A major test of the strength of the corporation's relationship with MGEA will take place when the results are disclosed of the current job evaluations. They could generate many complaints or grievances. Staff apprehension will probably increase even more when the corporation begins to draw upon the results of the job evaluations to justify changes in the existing salary structure. Until the corporation begins to act upon the findings of the job evaluation study and subsequent compensation surveys, MGEA can only adopt a wait and see position. This can be expected to change quickly if the corporation seeks different salary adjustments for different classifications. In Recommendation 8.06, I propose that salary adjustments be assessed in consultation with MGEA. This or some equivalent protection for current employees may make it easier for MGEA and MPIC to reach agreement on adjustments to salary scales.

In the opinion of the commission's human resources management consultant, the collective agreement needs to be expanded to cover more issues. For example, it is now common for employers and unions to support job sharing, early retirement options and flexible work hours. The commission's consultant believes that the collective agreement should provide more clearly for these relatively recent employment practices. Out of respect for the collective agreement, the commission does not recommend mid-term alterations, except with the willingness of both parties to renegotiate. It may be in the interest of both parties in future negotiations, however, to consider terms relating to job sharing, early retirement options and flexible work hours.

F. ACTIONS TAKEN ON RECOMMENDATIONS MADE IN 1979

Most of the recommendations concerning human resource management policies and practices contained in the ministerial insurance review of 1979 have been acted upon. Work on several is still in process. A formal job evaluation was commenced only recently. The performance appraisal system, while much improved following a redesign of forms and procedures, has not been implemented fully. A human resources management information system is now being developed, but will not be fully implemented for several years. Three major recommendations made in 1979 have not been acted upon. These are:

1. Confirmation of Rights of Non-Union Employees

The authority of the human resources department in terms of non-union employees, while broadened, is not fully defined. This issue is addressed by Recommendation 8.07.

2. Establishment of Committee of Managers to Address Personnel Issues

The corporation has not set up a multi-divisional committee of senior managers specifically to oversee long-term changes in human resource management policies and practices. I was informed that a specifically constituted committee to consider human resource management questions was not required. The corporation has a committee of ten senior managers that meets regularly to examine a variety of corporate issues including human resources management. In other words, the corporation believes that its management committee already provides a suitable interdivisional and interdepartmental forum thus obviating the requirement for a special committee. I am inclined to accept the corporation's position although I was unable to assess how well the management committee carries out its human resources management duties.

3. Development of a Long Term Collective Bargaining Strategy

The corporation's agreement with MGEA expires in 1991. In the negotiations regarding a new agreement, there will be a number of major issues. I was informed of the following:

- Procedures for re-assigning staff to positions with different job responsibility.
- Changes in staffing practices as the corporation implements a centralized dial-a-claim facility.
- Salary adjustments following the completion of job evaluations and compensation surveys.

As the corporation enters discussions concerning these topics, it will need a clear view of its bargaining objectives. The absence of a strategy, as proposed in 1979, could be a major drawback. I propose that the corporation develop a suitable plan as part of a long-term collective bargaining strategy.

Recommendation No. 8.09: That the corporation develop a collective bargaining strategy comprised of:

- Statements of the long-term changes the corporation seeks in its unionized workforce.
- A statement of the objectives that the corporation will pursue in its upcoming negotiations.
- A description of the organizational arrangements the corporation will make in supporting these negotiations, including the formation of a negotiating committee, a mechanism for assessing the impact of changes in the agreement and a delineation of management responsibilities prior to and during negotiations.

MPIC's human resources management capacity is much greater than it was in 1979 when the commission's consultant first examined the corporation. Due to changes since 1979, both in MPIC's business and the human resources field, the corporation now has new challenges, as I have acknowledged.

V. HUMAN RESOURCES MANAGEMENT CAPACITY

The commission assessed the ability of the corporation to carry out the human resources management activities described in Section IV. The commission's conclusions and recommendations follow.

A. ORGANIZATION OF THE HUMAN RESOURCES DEPARTMENT

Since 1979, the major change in human resources management has been in the development of a department that is committed to this corporate function. Before, the corporation engaged mostly in what is known as personnel administration. Primarily a senior clerical responsibility, this was mainly comprised of administrative duties such as the processing of applications for employment, salary administration and the maintenance of employee records. In contrast, the human resources department has a clearly managerial mandate. Organizational development is clearly recognized. Human resources management planning and training are established duties of the department.

The human resources department now has 12 professional or managerial staff and three clerks. Exhibit 4 is a chart of the organizational structure of the human resources department. In addition to divisional management, there are separate responsibility centres for:

- Employment services, mostly recruitment.
- Classification and compensation.
- Pay equity administration.
- Labour relations.
- Organizational development and staff training.

I am informed that while the organization and staffing of the human resources department conform to accepted practice, certain personnel functions depend upon a minimum level of professional support that often does not vary according to the size of an organization. Thus, comparisons of ratios of all employees to human resources management staff are misleading.

The human resources division staff belongs to the community of personnel professionals who are employed by other Manitoba government organizations, including Crown corporations. I understand that these human resource professionals often consult with each other about personnel policies, compensation and other human resources management matters. This working relationship helps assure consistency among various provincial government organizations. When practices do differ, the reasons are more likely to be understood and accepted. Despite the benefits of this liaison, the commission believes there is a need for the corporation's staff to look outside more often to private industry and to governmental organizations in other provinces. Since it is said that government-owned insurance organizations are isolated by their private sector counterparts, the human resources management staff of the corporation would have to be persistent if they were to develop these broader contacts. Nevertheless, I believe that this would be justified by the following benefits:

- Development within MPIC of better and more information on insurance industry compensation.
- Improved access to industry training services and resources such as curricula, instruction guides and standards.
- More precise specification of job descriptions in terms that are accepted by the private industry.
- Improved outreach to job candidates employed by private insurance companies.

Without any illusion that private sector human resource management is necessarily more inventive or forward-looking than its public sector counterpart, I believe that by developing a greater awareness of private industry practices the corporation would enhance its perspective of human resource management, and the potential for improvement within MPIC.

Recommendation No. 8.10: That the human resources department assign higher priority to developing contacts with human resources management professionals employed by privately owned insurance companies and seek opportunities for the department's staff to participate in the professional development programs of associations of private insurance companies.

All the staff of the human resources department now work in the corporation's main office in Winnipeg. The commission's human resources management consultant recommended that the corporation consider reassigning a personnel staff person to the corporation's head office in Brandon. There are approximately 130 employees of the corporation in the Brandon office. The staff of that office is mostly responsible for administrative work needed for general insurance. In addition to this staff, the corporation employs staff for claims centres in Brandon and nine other communities outside Winnipeg.

It may be that the needs of the corporation's staff outside Winnipeg could be better met by decentralizing staff of the human resources department. However, since this staff group is quite small, I believe the corporation needs first to assess whether it would be both practical and advantageous to assign one or more employees wholly to support needs in various communities throughout Manitoba. In doing this, I believe MPIC, in addition, should examine alternatives.

Operating divisions could or should perform work now being carried out by the human resources department in accordance with guidelines or directives provided by the latter. For this, the human resources department would have to be able to provide the required leadership and impetus.

At the outset of this paper, in keeping with the commission's terms of reference, I stated that my main interest was that part of the organization that supports automobile insurance activities. Mostly, there is a clear division of responsibility between automobile insurance and general insurance. The one exception, as noted, is the special risks extension department which is part of the general insurance organization. One of the major responsibilities of the special risks extension department is the provision of specialized automobile insurance such as insurance of commercial fleets. Due to this overlap, I believe it is appropriate that I comment upon the uncertainty surrounding MPIC's future role in general insurance.

It is clearly the responsibility of government to determine whether MPIC will participate in general insurance. Therefore, I confine my comments to one question which, due to the minor organizational overlap in responsibilities for automobile insurance, falls within the scope of this commission. Understandably, the uncertainty surrounding MPIC's future responsibility for general insurance has made staff feel insecure about their employment prospects. Since most of the general insurance staff are concentrated in the corporation's head office in Brandon, I am informed that staff morale has suffered most in that location. It was suggested to me that it would be easier for the corporation to deal with this problem if a member of the human resources department was situated in Brandon. Therefore, while I am reluctant to recommend the assignment of an individual on a permanent basis until the corporation has carried out the assessment I proposed earlier, the commission does support the assignment of a human resources staff person to Brandon at least until the general insurance matter has been dealt with.

Recommendation No. 8.11: That the corporation assess requirements by managers and other employees outside Winnipeg for the services provided by the human resources department and opportunities to make improvements by:

- Improving the services now provided by Winnipeg staff of the department to managers and employees at work locations outside Winnipeg.
- Encouraging personnel outside Winnipeg to assume greater responsibility for human resources management functions under the general guidance of the human resources department.
- Assigning permanently one or more staff of the human resources department to locations outside Winnipeg.

Recommendation No. 8.12: That an employee of the human resources department be assigned to work with managers and staff in Brandon for as long as there is uncertainty regarding the role of the corporation in general insurance.

In the commission's other position papers, many changes are recommended. To implement these, the corporation would have to make major organizational and staffing adjustments. The commission believes that the human resources department can make a major contribution by advising the corporation's senior managers about the possible effects of these changes upon employees and their needs for development.

Recommendation No. 8.13: That the human resources department continue to report directly to the chief executive officer at least until completion of any major organizational changes MPIC decides to undertake over the next year or two.

B. THE DEPARTMENT'S PROGRAM DELIVERY CAPABILITIES

The preceding sections of this position paper contain descriptions of the department's responsibilities for recruitment, training, compensation, employee evaluation and collective bargaining. These correspond to ongoing programs of the human resources department. The work is performed either by the department's staff or by consultants who are retained to provide services under the department's direction. For example, as stated, the corporation's employee performance appraisal system was developed with the assistance of consultants. More recently, the corporation has engaged a major consulting firm to assist the human resources department in undertaking the comprehensive job evaluation referred to earlier.

The corporation publishes a bulletin for distribution to all staff. However, the commission's human resources management consultant was informed that staff workers were not well informed about activities outside their immediate work group. He recommended that the corporation assign higher priority to internal communications. During my review, Graham Lane, who has acted as the chief operating officer from February of 1988, took several steps to improve awareness among staff of developments in the corporation. He issued statements to staff on major changes and visited many of the corporation's offices and claims centres. I believe that these initiatives were important. Particularly in the light of the recent reorganization, the appointment and activities of this commission and the recent change of government, staff morale was tested. Feelings of insecurity have been unavoidably raised, and without the communication of facts, many groundless rumors could have developed. Mr. Lane's efforts, I think, helped to stem a deterioration of morale.

The human resources department can play an important role by supporting more contact between senior management and employees and through other vehicles of staff communication. Within the community and corporate services department, MPIC has staff members who have much experience in the communications field. I believe these employees can contribute by assisting in the design of internal communications programs.

Recommendation No. 8.14: That the human resources department and the community and corporate services department form a task force to develop a proposal for ongoing internal communications that would encompass such measures as staff briefings and internal publications.

The commission believes that the corporation has sufficient capacity to carry out its human resources management programs. For additional assistance, it can retain consultants as in the past. However, I am informed there is concern within the corporation about how the capacity of the human resources department is being directed. Specifically, managers outside the human resources department informed the commission's human resources management consultant that there is a need to reallocate training resources from general to more technical staff development requirements. Staff development resources in technical training fields may not be easily acquired by MPIC. While recommending that the corporation develop links with the private sector for that purpose, a more promising approach is an aggressive pursuit of the development of liaisons with SGI and ICBC for consultation and advice concerning human resource management problems.

The senior manager responsible for the human resources department informed me there are three organizational development issues of high priority for the corporation:

- Assisting staff to adapt to new workplace technologies such as word processing and the use of online computer systems.
- Expanding professional development opportunities for managers and senior supervisors.
- Improving technical training for estimators on new vehicle construction and modern repair practices.

For those development requirements, there are many possible sources of assistance upon which MPIC can draw. Almost all major vendors of computer systems offer extensive education programs in the use of their products. Training in general management is offered by most universities. The Banff and the Wharton schools of business both provide internationally recognized professional development seminars for senior executives. Technical training for estimators could be acquired by arrangement with Red River Community College. This institution already supplies training in automotive mechanics and autobody repair. MPIC should be able to secure the services of the college to develop appropriate curricula for its estimators.

As I mentioned in Section IV(B), I support the corporation's plans to strengthen training in the three fields listed as well as others. However, as I also suggested, any training offered by the corporation should be tailored to specific job demands.

C. EMPLOYEE INFORMATION SYSTEM

The corporation is implementing a human resources management information system. Based upon a contemporary software package that has been used successfully by many other organizations, this system will help support the following activities:

- Payroll administration.
- Absenteeism reporting.
- Assessment of staff training needs.
- Benefits administration.
- Skills inventory maintenance.
- Employment history reporting.

The system can also be used for timekeeping. While the corporation has no current plans to use this feature, it may be valuable if the corporation adopts labour costing. For example, if the corporation wishes to allocate adjusting expenses more precisely to different classes of claims, it would have to determine the amount of staff time being consumed in processing claims of each type. The timekeeping feature would make it easier for the corporation to do this.

I believe this would be an improvement since it would place the corporation in a better position to respond to a concern expressed by the actuary who reviewed the corporation's

> claims liabilities on October 31, 1987. He said the corporation, in providing for future claims expenses, was not allotting loss adjustment expenses to the periods in which they were likely to occur. The corporation revised its loss reserving policies in accordance with the actuary's recommendations. However, in making this change, the corporation relied solely on the actuary's opinion. A better solution, had it been available, would have been allotment based upon statistics on work consumed in adjusting the most protracted claims in the years preceding their settlement. Some form of timekeeping would have yielded this data and avoided the difficulty mentioned by the actuary. This need not be onerous since the claims that give rise to future loss adjustment expense make up a relatively small portion of the total. For instance, the corporation would not need to account for the time spent by estimators and adjustors on vehicle damage claims.
>
> I am informed that the employee information system offers important benefits. In addition to providing complete information on current staffing, the system will help managers throughout the corporation to monitor changes in staff turnover and absenteeism. The inventory of staff skills and experience will help the corporation find candidates for promotion, staff development or reassignment.
>
> Recommendation No. 8.15: That the corporation continue to assign priority to completing the implementation of the human resources management information system.

The commission believes that the human resources department is generally meeting the corporation's requirements. Important steps are being taken to improve existing programs and provide better information for management.

VI. SUMMARY OF MAIN CONCLUSIONS

The commission finds as follows:

- With almost 80 percent of all permanent employees in one division, the corporation's current organization structure differs considerably from the one that was used during the preceding 16 years.
- There is a need to reconsider the corporation's structure, particularly the burden carried by the vice president of insurance operations.
- The corporation's analysis of other government-owned insurance companies suggests the number of employees appears appropriate in relation to the volume of business.
- The corporation's pay scales are not excessive when they are compared to those of other government-owned insurance organizations.
- The salaries attached to clerical positions are, in general, considerably higher than those offered by private insurance companies; this is due to government compensation policies rather than to those of MPIC.
- Although staff morale deteriorated during the corporation's ratemaking difficulties and subsequent reorganization, employee confidence appears to be in the process of restoration.
- The corporation is providing the opportunity for employees to advance to more senior positions; new employees are being hired mostly to fill entry-level positions.

- With the exception of in-house training for adjusters, too much of the corporation's staff development has been training in general subjects.

- Although the corporation has an employee appraisal system, it has not been used to determine needs for staff training.

- The corporation and MGEA appear to have a productive working relationship.

- The human resources division appears to be appropriately organized and to have sufficient capacity to support the corporation's requirements.

- The corporation has made progress in implementing a new human resources information system.

- A comprehensive job evaluation is in progress; this is expected to produce information on job relativity that will allow the corporation to refine its compensation.

The corporation has made many improvements since the last ministerial review. However, if the maximum benefit is to be realized, the corporation's senior managers will need to be committed fully to supporting current initiatives in job evaluation, training and compensation. This will be a major concern for the corporation's new chief executive officer.

VII. RECOMMENDATIONS

Recommendation No. 8.01: That the corporation consider opportunities to attract a modestly higher proportion of applicants from outside the corporation, especially for supervisory, technical and professional positions, and further, to give effect to this recommendation, that the corporation advertise for both external and internal candidates for all positions with the rank of manager or higher. (Page 16)

Recommendation No. 8.02: That the corporation actively pursue avenues through which to improve the skills of its adjusters in processing motorcycle and large truck claims. (Page 18)

Recommendation No. 8.03: That the human resources department be responsible for the provision of staff development services rather than development *per se* of staff skills; and further, that the department do this by:

- Assisting managers and senior supervisors to define training needs.
- Maintaining lists, written descriptions and other documentation of training resources and regularly updating and publishing them to reflect new courses or other resources.
- Assisting other parts of the corporation to make suitable arrangements for training. (Page 19)

Recommendation No. 8.04: That the corporation commit itself first to strengthening the technical content of its staff development by improving training in estimating, adjusting and information systems. (Page 20)

Recommendation No. 8.05: That MPIC, once it completes its job evaluation project, conduct salary surveys to determine whether the findings support the current compensation structure, and, if not, that MPIC adjust its compensation structure as staff turns over. (Page 24)

Recommendation No. 8.06: That MPIC, on completion of the current job evaluation, revise its employee performance appraisal system to incorporate any new or changed criteria derived from the performance requirements identified for job positions and that this be done for all positions. (Page 27)

Recommendation No. 8.07: That the corporation develop policy and procedures that will permit non-union employees to present complaints or concerns for resolution to an independent and appropriately empowered authority. (Page 27)

Recommendation No. 8.08: That MPIC attempt to fix compensation -- by reference to criteria accepted by other insurance organizations -- for those positions within the corporation for which no equivalent positions exist in any other government organization. (Page 28)

Recommendation No. 8.09: That the corporation develop a collective bargaining strategy comprised of:

- Statements of the long-term changes the corporation seeks in its unionized workforce.
- A statement of the objectives that the corporation will pursue in its upcoming negotiations.
- A description of the organizational arrangements the corporation will make in supporting these negotiations, including the formation of a negotiating committee, a mechanism for assessing the impact of changes in the agreement and a delineation of management responsibilities prior to and during negotiations. (Page 32)

Recommendation No. 8.10: That the human resources department assign higher priority to developing contacts with human resources management professionals employed by privately owned insurance companies and seek opportunities for the department's staff to participate in the professional development programs of associations of private insurance companies. (Page 35)

Recommendation No. 8.11: That the corporation assess requirements by managers and other employees outside Winnipeg for the services provided by the human resources department and assess opportunities to make improvements by:

- Improving the services now provided by Winnipeg staff of the department to managers and employees at work locations outside Winnipeg.
- Encouraging personnel outside Winnipeg to assume greater responsibility for human resources management functions under the general guidance of the human resources department.
- Assigning permanently one or more staff of the human resources department to locations outside Winnipeg. (Page 37)

Recommendation No. 8.12: That an employee of the human resources department be assigned to work with managers and staff in Brandon for as long as there is uncertainty regarding the role of the corporation in general insurance. (Page 37)

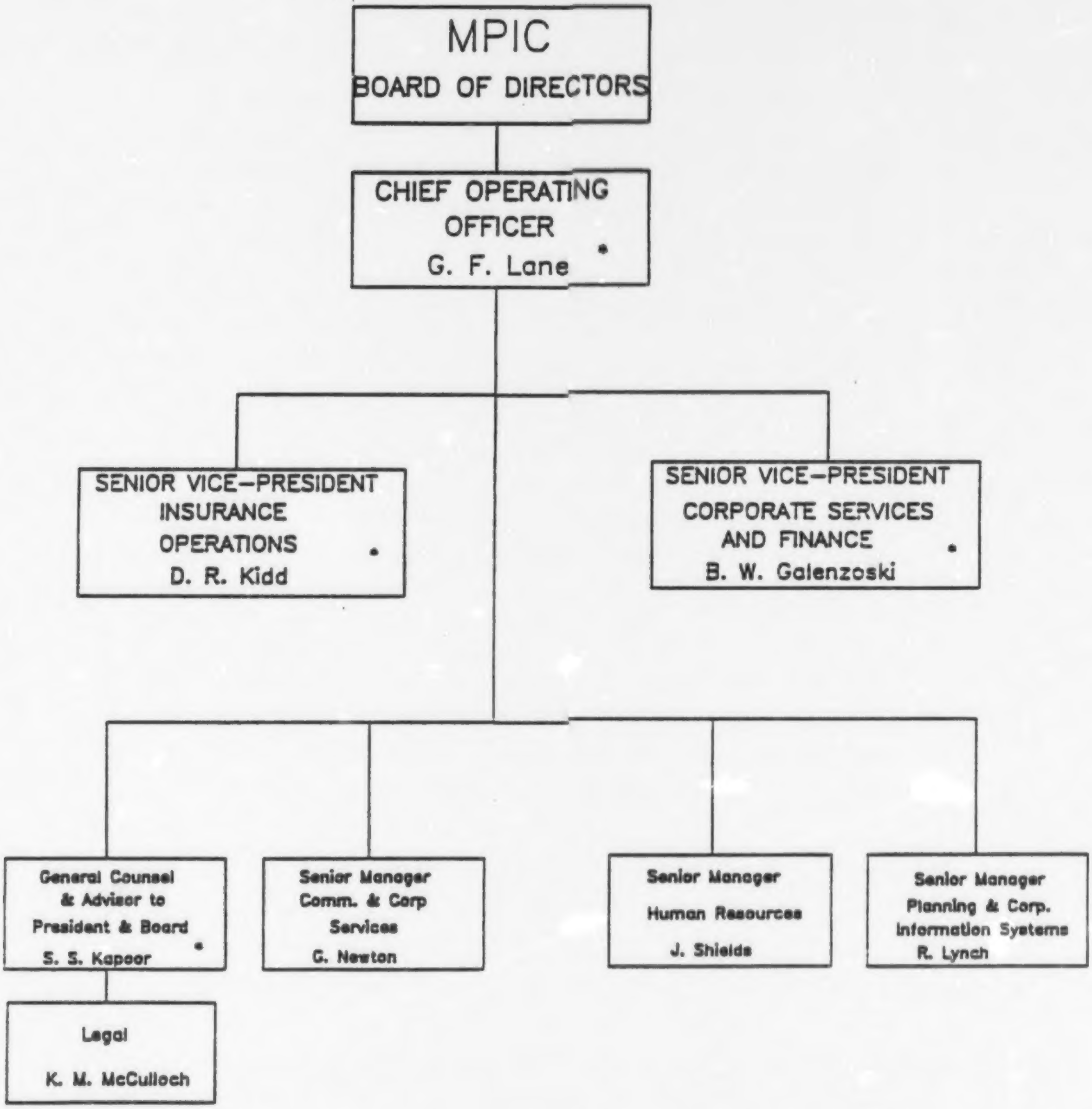
Recommendation No. 8.13 : That the human resources department continue to report directly to the chief executive officer at least until completion of any major organizational changes MPIC decides to undertake over the next year or two. (Page 38)

Recommendation No. 8.14: That the human resources department and the community and corporate services department form a task force to develop a proposal for ongoing internal communications that would encompass such measures as staff briefings and internal publications. (Page 39)

Recommendation No. 8.15: That the corporation continue to assign priority to completing the implementation of the human resources information system. (Page 42)

EXHIBIT 1

CORPORATE ORGANIZATION CHART


MPIC
BOARD OF DIRECTORS
CHIEF OPERATING OFFICER G. F. Lane *
SENIOR VICE-PRESIDENT INSURANCE OPERATIONS D. R. Kidd *
SENIOR VICE-PRESIDENT CORPORATE SERVICES AND FINANCE B. W. Galenzoski *
General Counsel & Advisor to President & Board S. S. Kapoor *
Senior Manager Comm. & Corp Services G. Newton
Senior Manager Human Resources J. Shields
Senior Manager Planning & Corp. Information Systems R. Lynch
Legal K. M. McCulloch

* Member of Management Committee

EXHIBIT 2

STAFFING AS AT OCTOBER 31, 1987

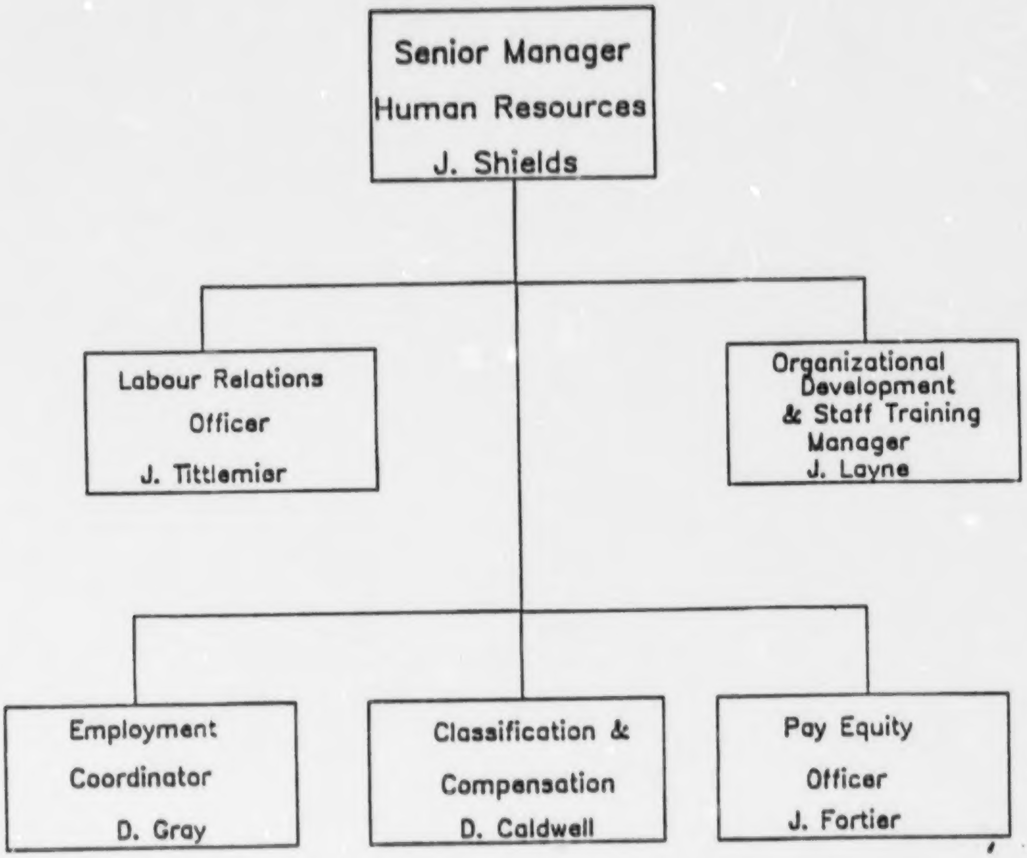
COMMUNITY	EXCLUDED EMPLOYEES	REPRESENTED BY MGEA	TOTAL STAFF
Winnipeg	104	777	881
Brandon	4	118	122
Dauphin	1	17	18
The Pas	-	5	5
Flin Flon	-	3	3
Selkirk	1	22	23
Portage la Prairie	1	15	16
Thompson	1	11	12
Steinbach	1	11	12
Winkler	1	11	12
Swan River	-	3	3
	114	993	1,107

EXHIBIT 3

MPIC PERMANENT STAFFING BY DIVISION AS AT MAY 1, 1988

GENERAL STAFF CLASSIFICATION	Management Committee	Insurance Operations	Corporate Services & Finance	Planning & Corp. Info. Systems	Community & Corporate Services	Human Resources	Legal	TOTAL FOR ALL DIVISIONS	AS PER CENT OF TOTAL
Managers	10	49	25	9	3	12	15	123	11.3%
Supervisors		79	16	2	1		1	99	9.1%
Underwriters		23	1	1				25	2.3%
Adjusters		302	2	1	4			309	28.5%
Estimators		54						54	5.0%
EDP Analysts		0		27				27	2.5%
Accountants		1	22					23	2.1%
Other Technicians		33	5					38	3.5%
Clerical		321	43	6	6	3	9	388	35.7%
TOTAL STAFF	10	862	114	46	14	15	25	1,086	100.0%
AS % OF TOTAL	0.9%	79.4%	10.5%	4.2%	1.3%	1.4%	2.3%	100.0%	

EXHIBIT 4


Senior Manager
Human Resources
J. Shields
Labour Relations
Officer
J. Tittlemier
Organizational
Development
& Staff Training
Manager
J. Layne
Employment
Coordinator
D. Gray
Classification &
Compensation
D. Caldwell
Pay Equity
Officer
J. Fortier

AUTOPAC REVIEW COMMISSION

POSITION PAPER NO. 9

STRENGTHENING THE MANAGEMENT OF INFORMATION RESOURCES

Submitted to: Honourable Glen Cummings

Submitted by: Judge Robert Kopstein

AUTOPAC REVIEW COMMISSION

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EXHIBIT 1 INFORMATION SYSTEMS ORGANIZATION

I. INTRODUCTION

The Autopac Review Commission assessed the importance of information resources to The Manitoba Public Insurance Corporation (MPIC). The commission examined how Autopac insurance operations are supported by information systems, and as well, the opportunities for improvements.

II. HOW INSURANCE OPERATIONS DEPEND UPON INFORMATION

In any insurance year, the corporation must manage an enormous volume of data. Under Autopac, over three quarters of a million vehicles are insured. The corporation must also keep information on more than 600,000 motorists. In a typical year, MPIC will process approximately a quarter of a million Autopac claims. Because more complex claims, such as those for severe bodily injury, may take up to eight years to settle, MPIC must also maintain much historical data. The commission was informed that the amount of information kept in the corporation's files roughly doubles every two years.

Managing a large volume of data is only one information management challenge. The business is inherently volatile. Claims frequencies rise or fall depending on driving habits, vehicle populations, weather and other factors. As MPIC's claims experience varies, so does the need for premiums. The fundamental financial requirement is the maintenance, over time, of an appropriate relationship of premiums to claims costs and expenses. The commission examined how MPIC manages operational data, the information it uses for normal day-to-day activities, as well as the information required by management for ratemaking and planning. I considered the corporation's need to manage the mass of information it receives, so that it may be utilized efficiently, as a resource.

Insurance organizations have been among the first businesses to invest in computer technology. Their work is particularly well suited to large-scale automation. The main reasons why insurance companies have invested heavily in information systems are:

- To achieve efficiencies in handling large volumes of information on policyholders and claims.

- To enhance control of information and, in turn, to generate greater accuracy of information on file.

- To expedite the reporting of significant changes in loss experience.

- To integrate the processes of ratemaking, underwriting, claims processing and marketing, in order to achieve better control.

- To enrich jobs by reduction of menial tasks.

Because these objectives are so important, the insurance industry views investment in computer systems as a highly strategic challenge. Effective use of information technology is considered to be a key success factor. An insurance organization's ability to compete depends very much upon the efficiencies and other benefits it has realized through automation.

III. HOW THE CORPORATION NOW MANAGES ITS INFORMATION

While The Manitoba Public Insurance Corporation may not need effective computer systems to compete, it certainly does require them for the purposes just described. Moreover, given the dependence of Autopac operations upon MPIC's computer capabilities, the corporation's systems determine the ease or difficulty with which the corporation can improve Autopac coverage and the fairness of its insurance pricing.

A. MAIN SYSTEMS MANAGEMENT FUNCTIONS

Before specific uses can be made of computers, an organization must be able to carry out a set of systems tasks. To manage information, the corporation's systems staff currently:

- Assesses opportunities for the use of computer technology.

- Develops and maintains information systems.

- Adds and verifies new information -- the process that systems professionals call data entry.

- Operates computer equipment.

- Helps other staff to use word processors and personal computers.

- Reconciles data in both document and computerized forms.

These are typical duties for an information systems staff group. However, due to the special nature of the insurance business, two factors are more important: first, the data entry function because the corporation gathers so much information; and second, the reconciliation of information submitted by policyholders, agents and suppliers. Information is taken from forms and entered into computer files. Careful and time consuming work is needed to ensure that the information entered in computer files is accurate. In MPIC, this reconciliation function is known as data control.

These functions are primary. Other functions must support them. For example, planning is necessary so that decisions can be made about staffing and other resources. Project management and systems administration, mostly processing the paperwork on the systems themselves, are two other essential support functions. Without these, many of the other activities could not be undertaken. All these functions are performed by MPIC.

B. INFORMATION SYSTEMS ORGANIZATION AND STAFFING

MPIC's information systems activities, as described in Section A, are carried out by the employees of two divisions: the planning and corporate information systems division and the insurance operations division. Exhibit 1 is a chart of MPIC's information systems organization.

Most of the data entry work is carried out by the data control department which is in the insurance operations division. It has 52 employees of whom 44 are data entry operators or clerks. This is a significant commitment of staff. The separate data entry department reflects the age of the corporation's main computer systems. Rather than being entered by staff throughout the corporation in various work locations, information must be brought to a central place. As described later, the corporation hopes to decentralize this workload by using contemporary computer systems.

The planning and corporation information systems division carries out more technical tasks. It is comprised of five departments of which four are responsible for:

- Information systems development.
- End-user support services.
- Information systems processing.
- Technical services.

The fifth department is the corporate planning department. Strategic systems planning represents a small part of this department's work. It also does marketing, feasibility and other business planning studies.

Excluding the staff of the corporate planning department, there are the equivalent of 110 full-time positions dedicated to information systems work. Of these, 14 were vacant in early July. At this time, the corporation's staffing plan provides for:

- Ten managerial or supervisory positions.
- 43 technical positions encompassing project leaders, analysts, computer operators and other technical staff.
- 63 clerical positions comprised mostly of data entry and administrative positions.

As of early July, 96 of the corporation's information systems positions were filled. These employees represented approximately nine percent of the corporation's total staffing.

In MPIC's budget for the 1987/88 fiscal year, the following estimates of expenditure were approved for the corporate information systems department of the planning and corporate information systems division:

o	Salaries and benefits	$2.7 million
o	Equipment purchases and maintenance	$0.6 million
o	Rental of computer time and services for Manitoba Data Services (MDS)	$3.3 million

These estimates do not include the $1.1 million budget of the data control department for the fiscal year ending October 31, 1988. Payments to the government's computer services bureau, MDS, are a major part of MPIC's total information systems expense. I later describe this important relationship upon which MPIC depends for much of its data processing.

C. MAJOR BUSINESS APPLICATIONS

A major use of a computer system is called an application. MPIC's major application systems are described next.

1. The Motor Vehicle System

In cooperation with the division of driver and vehicle licencing (DDVL) of the Manitoba department of highways MPIC has developed one system, the motor vehicle system to handle both vehicle registration and insurance. MPIC is recognized as the owner of the system although DDVL still has a significant role in the operation and enhancement of the system. The Motor Vehicle System allows information to be kept on vehicles, policyholders, premiums, registration fees, coverage limits and other items. Because it must serve two organizations with quite different needs, it is complex.

The motor vehicle system is 17 years old. It uses a dated design philosophy that prevailed when computer equipment was much more costly. Most organizations found it was too expensive to provide large numbers of staff with their own computer terminals.

The motor vehicle system requires that staff record information on forms which are sent to a central data entry staff group -- the data control department. Here, data entry operators use terminals to submit transactions that will cause computer files to be updated. The incapacity for direct entry by the employee who first receives the information delays the updating of computer files. This can cause problems that many organizations have overcome by implementing online computer systems that permit data to be entered immediately from original documents, instead of from forms as is now done by MPIC. The present method is known as batch data entry. Information only gets entered after batches of forms have been processed by staff of the data control department.

The motor vehicles system produces two types of reports: conventional printed reports and computer terminal displays. The latter are used when employees wish to inquire about the status of an individual vehicle registration or insurance policy. Even though data entry is not online, this query function is. This allows staff to see information in its most current form without delay. As mentioned, more modern computer systems use this same online approach for both query type reporting as well as data entry.

Because the motor vehicle system is old, much continuing effort is needed to enhance it. The work is divided between systems staff of both the Manitoba department of highways and MPIC. Any proposed change requires careful consideration by the staffs of both organizations to ensure that the enhancement sought by one will not cause difficulty for the other. The commission was informed that both the department and the corporation believe that maintaining the system is increasingly less economical. Replacement, however, would require a major investment.

2. Autopac Claims System

The second major system used for Autopac is the claims system. Almost as old as the motor vehicle system, it shares the same dated design approach. While online inquiries are supported, information must be entered by means of batch processing procedures.

The claims system is used to register claims, keep track of their status and provide reports of loss amounts. The system allows the corporation to keep a complete history of claims and to determine, from estimates provided by adjusters, the monies that must be set aside for future settlements. The information produced on frequency of claims and claims costs has two major uses. First, it allows the corporation to assess changes in claims costs. Second, it is a tool for estimating the specific amounts of premium that are needed to cover expected losses. Although the corporation makes relatively little use of this information for setting specific rates, the value of the claims system as a ratemaking tool will increase sharply if the corporation adopts the commission's recommendation that premiums correspond to expected losses in specific classes.

Like the motor vehicle system, the Autopac claims system is considered by the corporation to be near the end of its useful life. It has become both difficult and expensive to maintain. Like the motor vehicle system, it depends too much on forms. Since information is entered in that processing mode, there is unrealized potential to simplify claims processing by developing a new system with an online capability.

3. Driver Licence System

The division of driver and vehicle licencing (DDVL) owns and operates the driver licence system. For most of MPIC's history, there has been no direct link between vehicle insurance and driver licencing. While information on demerits has been used since 1971 to calculate driver's premium surcharges, it had no affect on vehicle premiums. However, the introduction of merit point reductions in 1988 brought about an important change. Now, MPIC must be able to access a driver's record to determine how many merits or demerits he or she has. This information, in turn, determines what reductions or surcharges will affect the insurance premiums payable on both the driver's licence and the vehicle registration.

The introduction of merit premium reductions has caused a dramatic increase in the workload of DDVL staff. The registrar of motor vehicles informed the commission that his staff had been recently processing 10,000 inquiries per month from drivers who believe they are entitled to more merits than are being shown on their drivers' licences. Before merit premiums were introduced, the division, typically, received only about 20 such inquiries a month.

Major decisions concerning the future of the drivers licence system are required for the following reasons:

- The sharply increased -- and, reportedly, now overwhelming -- workload that has been placed upon staff of DDVL.
- The competing and, at times, incompatible requirements for merit/demerit information for the separate purposes of driver licencing on the one hand and insurance rating, on the other.
- The present difficulty of altering the driver licence system to improve MPIC's access to merit/demerit information for ratemaking and premium billing.

The registrar informed the commission that he believed a full review of the merit/demerit program was necessary, including an assessment of possibly major changes to the driver licence system.

4. General Insurance Applications

The commission's terms of reference provide for a review of Autopac and the business operations associated with it. Since the information systems staff must support both the corporation's automobile and general insurance needs, the commission sought information on how MPIC assigned systems resources to these respective requirements.

Three years ago, the corporation acquired a major software package to serve as the general insurance policy management system. That package has replaced the major part of a less sophisticated system developed by the corporation 13 years ago. The new system is powerful but demanding. The corporation estimates that it costs approximately $1.5 million annually to operate. Many requests have been received from general insurance staff for enhancement of the system. The enhancements impose a heavy burden on MPIC's systems analysts and computer programmers.

5. Corporate Support Applications

The preceding systems supports Autopac or general insurance product management requirements. MPIC also needs to manage information for corporate rather than product management purposes. The following applications fall into the corporate management category:

- The human resource information system, described in the commission's Position Paper No. 9.
- The general ledger system based upon a commercial software package.
- Word processing.
- Personal computer applications for producing spreadsheets, management reports and other special purposes.

The commission found that many reports are prepared by staff with personal computers. I was informed these employees depend upon personal computers to generate reports of data kept in computer files that are part of the major applications already described. Staff are taking information that is already stored in the mainframe computer used by MPIC and entering the same data in files on their personal computers. This duplication contributes to difficulties in controlling data, to wasted staff time and to unnecessary expense. The commission's information resources management consultant believes that part of this use can be attributed to the perceived inflexibility of MPIC's major production systems. I understand the corporation is considering steps to overcome this difficulty.

Although systems on mainframe computers are designed mostly to produce a set of predefined reports, I am advised that there are tools that organizations can use to produce one-of-a-kind, or ad hoc, reports when these are needed. If staff do not have access to mainframe computer reporting tools, they are more likely to create duplicate files on personal computers to which they have greater access.

In their discussions with me, the corporation's senior managers acknowledged the need to replace or make investments in their application systems. The corporation, in its information systems work plan for the 1987/88 fiscal year, presents a list of 25 major projects. These include development of eight new systems, enhancement of five existing systems or parts of systems, and studies of 12 proposed new systems or enhancements. Before MPIC can make major improvements, however, I am advised that steps must be taken to strengthen its systems capabilities.

D. INFORMATION PROCESSING ENVIRONMENT

Just as the corporation hopes to apply modern work technology in its business operations, it must also consider the technology and tools it employs in planning, designing, developing, operating and maintaining information systems. Currently, the corporation rents time on the large computer facility that is operated by Manitoba Data Services (MDS). This Manitoba government-owned computer-timesharing service is used by most provincial government departments and Crown corporations. All of MDS' customers use the same computer equipment which is designed to support concurrently many applications. This allows hundreds of government and Crown corporation employees to be active at the same time using the computer for different purposes.

Although the corporation has not recently sought its own mainframe computer facility, it argued in favour of one for many years. I am advised that this would produce the following advantages and disadvantages.

Advantages of Direct Control:

- The corporation would be less dependent upon external organizations for approval before making major systems changes.

- MPIC may be able to operate its own computer facility for less than it now pays MDS.

- The corporation would have more choice in acquiring equipment and software.

Disadvantages of Direct Control:

- The corporation would incur extra expense in retaining additional staff to operate the equipment and in providing appropriate space.

- MPIC would assume a significant organizational burden in acquiring and maintaining highly technical software.

- It would be more difficult for MPIC to exchange information with other organizations such as DDVL.

- MPIC might be exposed to added risk in the event of a major failure due to a fire or other catastrophe and the resulting cessation of computer operations, perhaps for weeks or longer.

Manitoba Data Services operates a state-of-the-art computer facility. Its equipment and software are made by International Business Machines (IBM), a leading supplier of business computer products, or are compatible with IBM's products. MDS has also arranged with another computer service company for emergency data processing support if its own facility should fail. MPIC and other users of MDS' computer system are thus protected if this should occur. Based upon the advice of its systems consultant, the commission believes that the computer facility of Manitoba Data Services has the capacity to support the corporation's immediate requirements and future needs for online processing from MPIC's offices throughout the province.

As the commission mentions elsewhere in this report, MPIC needs the means to bring together information from different application systems. The combining of data from the drivers' licence and motor vehicle registration systems is one example. For this, the corporation requires database technology. Manitoba Data Services has some excellent database tools including IBM's most recent products. The corporation is now beginning to use these. I am advised that, if these initial efforts produce the benefits expected, the corporation will have the required experience to enable it to begin replacement of its major and older application systems.

To meet MPIC's longer term systems development needs, the commission's consultant recommends that the corporation evaluate and select standard tools that will permit it to develop complex database systems productively and within reasonable time spans. Specifically, I am informed that the corporation needs to commit itself to the following:

- A database management system such as DB-2, a relatively new IBM product.
- A networking and data communications standard.
- An applications systems development facility to increase productivity of analysts and programmers.
- End-user software that will allow non-computer staff greater but controlled access to data in mainframe computer files for query and statistical reporting purposes.

- Specialized software for systems staff that will help them in the following tasks:
  - Building a dictionary of standard definitions of corporate data that will reduce the needs for information to be redefined as part of each application system.
  - Project planning and management.
  - Simulating the effects of expensive systems changes so that users can more easily assess their potential before decisions are made to proceed with the work.

Senior officials of MPIC's planning and corporate information systems division have advised the commission of their intention to create an information processing environment with these building blocks. Confirming that intention, the corporation's proposals were provided to the commission under the following titles:

- 1988-1992 Strategic Plan: Information Support Services, Version 1, dated May 1987.
- Workplan -- Fiscal Year 1987-88.

Additional information was provided to the commission by the manager, information systems, planning and data administration. Based upon this information, and the findings of the commission's consultant, I believe that the corporation has properly identified the steps necessary to create a long-term technical environment for productive and timely development of a modern information systems capability.

Recommendation No. 9.01: That the corporation assign priority to specification of a long-term technical environment that will support the efficient and timely development of online database applications.

The development of online database applications is only one major step the corporation must take before redeveloping its most important systems. MPIC must also develop the required organizational capacity and, as is next described, ensure that systems work is supported by appropriate standards.

E. KEY SYSTEMS POLICIES, PROCEDURES AND CONTROLS

The commission's information resources management consultant informed me of the belief among most systems professionals that larger organizations should have consistent and documented systems management policies and standards. Although these can be developed internally, most organizations that possess a formal methodology began by purchasing a basic set of systems management standards that they then modified to meet their specific needs. Without a set of systems standards, organizations tend to be governed by de facto standards which, simply stated, are the rules or conventions first adopted at the time individual systems were developed, usually in response to specific operational problems. The standards used by the MPIC fall into the latter category. Consequently, the corporation's information systems reflect varying philosophies of design and documentation.

The information systems department, in its workplan for the 1987/88 fiscal year, states,

> "There is a fundamental need to develop sound standards and procedures. These will be directed to address areas such as:

- Business case generation.
- Employment analysis.
- Design standards.
- Programming.
- Testing.
- Development of methodologies.
- Service level measurements criteria".

The commission's consultant confirmed the need described by the corporation. In the same document, the corporation states that it has defined a staff position specifically to lead the development of appropriate standards and procedures. However, the consultant recommended that the corporation conduct an evaluation of the sets of standards that are provided by commercial vendors. Two benefits are envisaged:

- o Savings in staff time needed to develop standards.
- o Greater consistency because standards recommended by commercial vendors are based on common principles.

Recommendation No. 9.02: That the corporation assign priority to the acquisition or development of systems management standards and procedures after it has defined its long-term technical environment for systems development and management.

The commission was informed of many weaknesses in the corporation's management of information. The main application systems used to support Autopac are obsolete.

Little advantage has been taken of newer and more efficient methods for developing systems. There is also an inconsistency in the standards used by the corporation to control systems work.

To overcome these weaknesses, major changes will be needed. Not the least of these is a strengthening of the capabilities of the corporation's information systems organization.

IV. STRENGTHENING THE CORPORATION'S INFORMATION SYSTEMS ORGANIZATION

Information systems staff play a key role in bringing about changes in work methods in other parts of their organization. In turn, systems professionals must be expected to demonstrate the same willingness to learn new methods as information technology advances. Even highly developed information systems organizations must be prepared to invest heavily in upgrading staff skills. For example, the commission's consultant advised that a full month or more of training per year is required over a two or three year period for a technical specialist to master a new database management system.

For the corporation, the challenge is much greater than that of simply training systems staff in the use of new systems methods. Most of the corporation's major applications were developed more than ten years ago. Since then, the systems staff have been required to assign priority to the maintenance of the systems that incorporate dated designs. Thus, the skills of these staff will require major upgrading if the pace of systems development is to accelerate.

In discussions with the corporation's systems managers, the commission was informed that the corporation recognized the need to strengthen its information systems organization. In the information systems division workplan for the current fiscal year, it proposes the following:

- Creation of a small staff group to carry out planning studies including assessments of the financial and non-financial benefits of developing new systems or enhancing existing ones.

- Assigning to staff the specific responsibility for building a dictionary of corporate data as well as standards and procedures governing the use of this information.
- Creating a staff position solely to develop systems management standards and procedures.
- Acquiring new tools to accelerate the development of systems and the training of both systems staff and other staff on how to apply these tools.
- Organizing and training a group of systems staff to provide better support for office automation including word processing, electronic filing, electronic mail and personal computing.

The commission's information resources management consultant advises that information systems professionals generally acknowledge that these are worthwhile organizational development challenges. However, the consultant recommended that the corporation consider a more purposeful approach. Specifically, he proposed to the commission that the corporation seek to strengthen its systems organization in the following three phases over a period of two or three years:

- Phase One -- preparation of a strategic plan in which major requirements for new or enhanced applications are defined and a vision presented of the desired role of information technology in MPIC's future organizational development.
- Phase Two -- evaluation and selection of a technical environment that will best support the application systems work proposed in the strategic plan.
- Phase Three -- acquiring or developing the required staff capabilities and creating a suitable organization.

Following these, MPIC would begin the design and development of the systems it requires. This process would continue for at least five years. The commission concurs with the consultant's proposal.

Recommendation No. 9.03: That the corporation consider long-term organizational development needs only when it has determined more precisely the technical resources upon which it will draw in replacing its older major application systems in accordance with an approved strategic systems plan.

MPIC, like other insurance organizations, depends heavily upon its computer systems. However, the main systems upon which it depends for automobile insurance are obsolete. Moreover, the corporation's information systems organization does not appear well prepared, in terms of its organization structure and staffing, to carry out a major redevelopment using modern systems management methods and tools. Despite this, I believe the corporation's management accepts that investment is needed both in new systems and in building and training the staff group that will carry out the work. If significant progress is to be made, it will be vital that these efforts be supported. Therefore, I propose that the corporation develop a strategic systems plan in which it describes its intended course of action. I am advised that this plan should incorporate:

- An evaluation of the corporation's business goals including any expected changes during the next five years.

- A description of the contribution that information technology is expected to make to the business.

- An assessment of the corporation's current systems and statements of expected needs to replace these, to acquire new systems or to modify existing ones.

- A description of the technical environment within which the corporation will seek to do its systems work.
- An organizational plan in which the corporation's requirements for systems staff are addressed.

The preparation of such a plan should be the corporation's first step in making needed improvements.

Due to the close and essential relationship between the corporation's information systems and its most important business functions, it is important that the senior manager responsible for systems participate in executive decisions relating to improved information systems. I am informed that this participation is now a practice.

Recommendation No. 9.04: That the corporation undertake to prepare a strategic systems plan that will serve as a foundation for future systems work.

V. SUMMARY OF MAIN CONCLUSIONS

The commission finds as follows:

- The information systems used by MPIC for Autopac are dated, do not provide for the efficient and timely capturing of data and cannot be enhanced economically to meet changing business needs.
- The mainframe computing facility used by the corporation has sufficient capacity to meet the corporation's current needs and can be expected to satisfy requirements in the future.
- Through Manitoba Data Services, the corporation has appropriate access to modern and powerful facilities for database management, network support, application

development and end-user computing.

- Because the corporation's systems staff have had to concentrate on maintaining older computer systems, they have gained relatively little experience using newer tools for systems planning, design, development, operations and maintenance.

- The corporation's systems work appears to be governed by standards that vary from one application system to another.

- The policies, procedures and standards used by the corporation's systems staff do not appear to be adequately documented.

- Within the corporation, there is significant awareness of the need to strengthen the abilities of the corporation's information systems department.

There are many shortcomings in the corporation's management of information resources. These have serious implications for the corporation. In other position papers, I recommend major changes to Autopac including the adoption of experience-based ratemaking. MPIC's current information systems are not designed to support a major change in that direction, although, with difficulty, the corporation has been able to produce information on its experience within individual rating classes. In addition to ratemaking, I have proposed that the corporation be more flexible in responding to market demands. To do this, it would have to be in a better position to alter the benefits and create new forms of extension coverage. Moreover, as part of the renewal cycle, I have proposed that the corporation provide policyholders with an accounting of the premium. All these improvements will depend much on the ability of the corporation to develop suitable computer systems.

VI. RECOMMENDATIONS

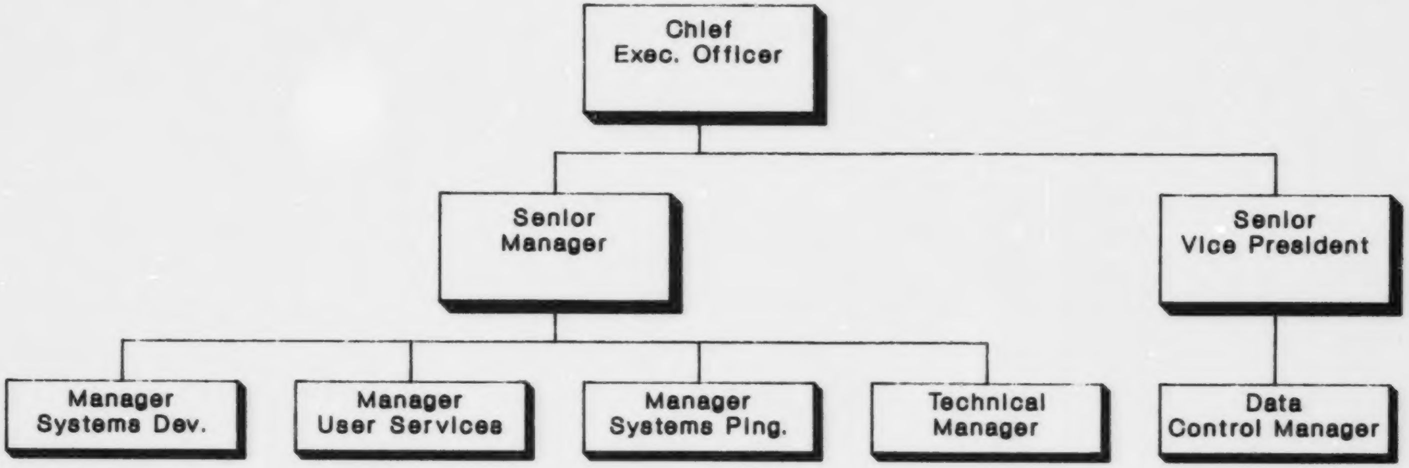
Recommendation No. 9.01: That the corporation assign priority to specification of a long-term technical environment that will support the efficient and timely development of online database applications. (Page 16)

Recommendation No. 9.02: That the corporation assign priority to the acquisition or development of systems management standards and procedures after it has defined its long-term technical environment for systems development and management. (Page 17)

Recommendation No. 9.03: That the corporation consider long-term organizational development needs only when it has determined more precisely the technical resources upon which it will draw in replacing its older major application systems in accordance with an approved strategic systems plan. (Page 20)

Recommendation No. 9.04: That the corporation undertake to prepare a strategic systems plan that will serve as a foundation for future systems work. (Page 21)

INFORMATION SYSTEMS ORGANIZATION


Chief Exec. Officer
Senior Manager
Senior Vice President
Manager Systems Dev.
Manager User Services
Manager Systems Plng.
Technical Manager
Data Control Manager

Source: MPIC July 1988

AUTOPAC REVIEW COMMISSION

POSITION PAPER NO. 10

INCREASING PUBLIC AWARENESS OF THE CORPORATION'S CHALLENGES AND OPPORTUNITIES

Submitted to: Honourable Glen Cummings

Submitted by: Judge Robert Kopstein

AUTOPAC REVIEW COMMISSION

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5. MAY 7, 1988, GOVERNMENT PRESS RELEASE

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I. INTRODUCTION

The Autopac Review Commission examined and assessed the overall public relations and communications practices and capabilities of The Manitoba Public Insurance Corporation (MPIC). The commission's communications review, of necessity, touched upon both Autopac publicity as well as more general subjects such as internal communications. As well, the communications functions at other provincial Crown corporations were examined for comparison purposes. In this, the commission was assisted by David Roffey, an independent corporate communications consultant.

II. COMMUNICATIONS

In the public relations field, the commission was informed that several factors are usually considered to be the key to effective corporate communications. These are:

- Commitment on the part of management.
- Competence in the departmental staff.
- Centralization of policy-making.
- Communications in all directions-- up, down, across
- Coordination of all efforts towards well-defined corporate goals.[1]

If these conditions are met, an organization is most likely to convey an accurate, well-defined and precise message to the public.

Of central importance to the communications process is senior management support. If management considers communications with the public to be important, especially the individuals or organizations who are served by, or who serve, an enterprise, then that function will be prominent and its contribution will be significant. If not, then communications will tend to be passive and reactive.

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[1] Effective Public Relations, Cutlip & Centre p. 155.

Corporate communications varies from one organization to another depending upon: the capabilities and preferences of public relations staff, organizational structure and policies, and the traditions, goals, and objectives of the organization. Typically, corporate communications staff are responsible for:

- Explaining the organization, its goals, policies, practices and activities to those parts of the community that are most relevant to a business.
- Assisting management to interpret the attitudes and opinions of the public about the organization.
- Anticipating, identifying and preventing misunderstandings that might be harmful to a company.
- Promoting, in a responsible way, company products or services.
- Supporting management in responding to public needs.

The public generally accepts the efforts of private business to publicize and advertise, even though they know the customer indirectly pays the costs. Many regard government information or communications work as unproductive: they question the need for government-held corporations to build and maintain separate relations with the public.

Provincial and federal Crown corporations have long had communications programs. They often face more hostility and suspicion than other organizations, frequently being seen as advocates and instruments of government policies.

To provide automobile insurance, MPIC has direct contact with vehicle owners, drivers, third party claimants, insurance agents and members of the automotive trade. It also has ongoing relations with its employees, directors and the government. It is important that MPIC convey to each group an accurate and sufficiently complete view of the corporation's current circumstances and immediate plans. The communications plan, if it is to be honest, should reflect a vision of the business that has been accepted by those persons whose decisions and actions shape the organization. I am advised that communications objectives should be established by the chief executive officer jointly with the corporate communications staff to ensure that the communications objectives are consistent with corporate objectives.

MPIC developed its current statement of mission and its corporate objectives late in 1987. They were revised slightly in the spring of 1988. In Position Paper No. 11, on corporate planning, I describe these in more detail. The mission and goals are derived from, and thus consistent with, MPIC's public mandate. They have been discussed at length by all members of MPIC's senior management including those responsible for corporate communications. Therefore, I conclude that MPIC has created the basis of a suitable communications program -- namely, clear statements of the organization's purpose. As I make this report, MPIC had yet to appoint a new chief executive officer. While I cannot comment on the guidance he or she may provide, the commission's consultant found that the acting chief operating officer had worked closely with communications staff to ensure that the public were given accurate understanding of the organization including its activities and initiatives.

III. ORGANIZATION OF CORPORATE COMMUNICATIONS

To obtain the general communications goals just described, an organization requires capacity to carry out the various functions or activities that comprise corporate communications.

A. COMMUNICATIONS FUNCTIONS

The commission's consultant advised me that corporate communications is generally considered as being comprised of three major functions:

- Public relations, encompassing:
  - Internal communications with staff.
  - Community relations; that is, communications with special interest groups and the public at large.
  - Government relations; that is, interaction with other regulatory bodies, government departments and other public sector organizations.
  - Media relations with print and broadcast journalists.

- Advertising and promotion, composed of:
  - Planning and design of publicity campaigns.
  - Design and development of advertising materials such as brochures and advertising copy.
  - Purchases of radio and television time and space in publications.

- Marketing, comprised of:
  - Research of needs of customers and other segments of the community served by MPIC or, in the case of suppliers, serving the corporation.
  - Assessment of the potential to introduce new products or services or to enhance existing ones.
  - Identification of problems and opportunities of supplying planned or current products or services to customers.
  - Development of product or service packaging and pricing plans to meet the needs and preferences of both consumers and the corporate supplier.
  - Design of organizational programs to develop and maintain demand for corporate services or goods.
  - Operation and support of sales.

> Marketing, while encompassing sales operations, helps support the other two functions: public relations and advertising.

In many organizations, marketing is organized separately from the other functions. In this case, the title corporate communications may be used to refer only to public relations or to public relations and advertising. How these responsibilities are divided is less important than how closely particular responsibilities have been assigned to individual staff.

B. COMMUNICATIONS ORGANIZATION STRUCTURE

MPIC's communications department, formed in 1971 when MPIC was created, consisted of one person during its first 12 years. Some five years ago, a senior manager was hired from Saskatchewan Government Insurance to be the head of an expanded communications department that was assigned additional responsibility for customer services, primarily responding to policyholder inquiries. For the next four years, the corporation's professional communications staff was limited to these two persons. Early in 1987, the department was expanded to include the present five professional staff plus one additional position which has remained vacant, as illustrated in Exhibit 1.

At MPIC, the communications department is responsible for public relations and advertising. Autopac marketing is the responsibility of the Autopac services department that was created in March as part of the new insurance operations division. Both in MPIC and most other organizations, it is impossible to draw a perfect distinction between corporate communications and marketing. Therefore, I am advised that a close and cooperative working relationship is essential between the staff groups who handle these functions.

Despite the recentness of the reorganization, I am advised that there is no reason to doubt that MPIC can achieve these objectives.

Less satisfactory is the organization of the corporate communications department. I am advised that responsibilities have not been assigned to individual staff for particular public relations and advertising tasks. Instead, new work is usually given to whomever is free at that time. The department's organization structure supports this non-specific approach. There is a one-on-one reporting relationship between the senior manager of corporate communications and the manager of advertising and public relations. There is yet another one-on-one relationship between the manager of advertising and public relations and the senior communications officer. The senior communications officer is responsible for three communications officers and thus is the only person in the department who truly supervises a number of employees.

I believe that a restructuring of MPIC's communications department would allow work to flow along functional lines, with individuals being assigned ongoing responsibility for specific tasks rather than performing a variety of tasks as required.

The commission's consultant recommended that the corporate communications department be organized as shown in Exhibit 2, which is taken from the consultant's report. Of the department's structure he said,

> "The Department is not currently structured to create a work flow along the lines of the two basic tasks of a Communications Department, i.e. Advertising & Promotion and Public Relations. With a staff of five persons, everyone appears to do something of everything. It is recommended, therefore, that the department be reorganized along two functional lines, with individuals assigned to one or the other. The scheme of the department protrays how this might be accomplished."

The structure recommended by the consultant retained by the commission appears to be a valid long-term organizational objective and I therefore recommend that it be considered by MPIC.

Recommendation No. 10.01: **That the MPIC communications department be restructured along functional lines and that responsibilities be assigned to individual professional staff for specific and distinct types of tasks.**

C. CAPACITY OF THE DEPARTMENT

I am advised there is no straightforward method for determining how large a corporate communications staff should be. Instead, the commission's communications consultant compared MPIC's staff to those of the Insurance Corporation of British Columbia (ICBC) and two Manitoba Crown corporations -- Manitoba Hydro and Manitoba Telephone System (MTS).

1. How ICBC Organized Communications Staff

The commission's consultant examined in some depth the communications programs and organization of ICBC. He reported that ICBC is a constructive example of how corporate communications should be organized to handle required tasks and to impart to all segments of the public an accurate and adequate awareness of the corporation's objectives, programs and challenges.

Reporting to ICBC's senior manager of public information are four managers who are responsible for: community activities, market research, editorial services and media relations. The department has seven more professional employees for a total professional staff of 13 persons. Exhibit 3 is a chart of ICBC's communications organization.

The commission's consultant advised me that communications staffing needs cannot be determined from the size of an organization. He said that it should not be concluded that MPIC requires proportionately fewer staff because MPIC volume of business is only 40 percent of ICBC's. He said that the staffing needs of the two corporations are more similar than different since they both require comparable numbers of employees to carry out the same functions. For instance, the same work is needed to prepare a brochure on insurance coverage whether it is distributed to 500,000 policyholders or to more than a million.

2. Manitoba Hydro's Communication's Organization

Hydro has two communications departments -- public relations and marketing services. The professional staffing of these departments is presented in the following table:

Communications Staffing of Manitoba Hydro

Public Relations	Marketing Services
1 Manager -- Public Relations	1 Manager--Marketing Communications
1 Public Affairs Officer	1 Supervisor Marketing Communications
1 Supervisor Creative Svcs.	3 Home and School Lectures
4 Information Writers	3 Product Information Writers
3 Artist -- Technicians	4 Technical Communicators (Engineers)
Total Professional Staff: 29	

Two special communications needs are accommodated by Hydro's communications organization. First, there are three home and school lecturers who promote the safe use of electrical energy. The equivalent staff function is carried out by the MPIC's driving safety employees who are not in MPIC's corporate communications department but in a special department in the insurance operations division. The second of Hydro's special communications needs is the requirement to communicate technical information to potential suppliers, industrial customers and the construction trades. This work is performed by four professional engineers who have been assigned to Hydro's communications department. MPIC has a somewhat comparable need to communicate in a general way with the automotive repair industry.

3. The Communications Organization of Manitoba Telephone System

MTS' communications are also organized into two main functional sections -- public relations and advertising. The professional staffing of these departments is provided in the following table:

Communications Staffing of MTS

Public Relations	Advertising
1 Manager -- Public Relations	1 Supervisor
2 Managers -- Internal Information and Product	9 Other Professional Staff
2 Supervisors -- Employee Information and Public Information	
2 Writers	

Total Professional Staff: 21

> MTS has seven professional staff responsible for public relations and ten professional employees who do advertising work.

The marketing needs of Manitoba Hydro and MTS vary from MPIC's since all three are in different types of business. However, I am advised that the public relations and advertising requirements of all three are comparable in many respects.

All these Manitoba Crown corporations operate primarily as monopolies. They all employ large staffs of more than 1,000 employees. These Crown corporations are also very visible suppliers of services to large numbers of Manitobans throughout the province. Therefore it is appropriate to compare MPIC's professional public relations and advertising staff of six persons to the ten professional employees of Manitoba Hydro and the 17 such employees of MTS. Of these Manitoba Crown corporations, MPIC has the smallest professional public relations and advertising staff. The difference in staff numbers is especially significant when one considers that MPIC may have the greatest current need to strengthen its relations with the public.

I am only partly convinced of the consultant's position that MPIC's communications staffing needs are similar to those of ICBC. I believe larger organizations, such as ICBC, can justify more easily a greater diversification of services. I doubt that it would be feasible for the Manitoba corporation to replicate all the communications programs of its counterpart in British Columbia. Nevertheless, as I discuss later in more detail, there is significant potential to expand and improve MPIC's communications.

Therefore, I propose that MPIC consider a modest expansion of its public relations and advertising staff, perhaps by adding two to four employees.

Recommendation No. 10.02: That the corporation consider, in addition to a more specific assignment of the responsibilities to individual employees, a modest expansion of its public relations and advertising staff.

The commission's consultant recommended that the professional staff of the corporate communications department be given additional training in the planning, design and management of communications campaigns. On page 39 of his report, he writes:

> "It is recommended, therefore, that they be encouraged to take additional training in this area. It is also recommended that they become members of professional communications associations such as the International Association of Business Communicators and the Canadian Public Relations Society and become involved in professional development programs. Exposure to other insurance corporations, their communications operations and their professional development seminars and conventions, would also be viewed as highly beneficial."

The usefulness and importance of professional development, I think, would be denied by no one. Reasonable time and resources should be allocated to external programs for that purpose.

Recommendation No. 10.03: That MPIC's professional communications staff enhance their professional development by participating more in professional associations, seminars and training to increase their capabilities to manage diverse and sophisticated modern communications programs.

D. RELATIONS WITH GOVERNMENT

The commission's consultant examined the role of government in MPIC's communications and its effects.

1. Publicity of 1988 Rate Changes

In his report, the consultant provided a summary of events preceding the introduction of the auto insurance rate increases of December 22, 1987. The consultant informed me that he believes the government's actions disrupted MPIC's communications programs. I was also informed that MPIC communications staff were informed about the merit premium reduction program only after it had been announced, on February 2, 1988, to the media by government. A press conference was held at the legislative building. The commission was informed that the staff of the premier's office had been responsible for the development of the press announcement.

There is no doubt in my mind that the government took control of the rate increase issue after deciding that MPIC was incapable of resolving the problem. Members of the government in office in early 1988 asserted to me their view that the corporation had failed to justify its initial proposals to cabinet that Autopac rates be raised by amounts even higher than the substantial increases eventually put into effect. They contend that the government, as part of its accountability for MPIC, was compelled to direct that alternative rate proposals be developed. Once this was done, they said it was government's responsibility, not MPIC's, to make public its decisions. In contrast, officials within MPIC argued that the corporation's proposals were sound and should have been approved. The commission's communications consultant, in effect adopting this position, viewed government's actions as being disruptive of corporate activities.

Upon the information received by the commission from its consultant on ratemaking (see Position Paper No. 3), I am unable to say that the government, at the time, was wrong in refusing to accept the corporation's initial rate proposals. It appears that the increases which the corporation sought may well have been beyond those which the corporation required. The corporation's proposals were at the very least questionable. In light of that, claims of improper interference are rather deflated.

It is impossible to separate the question of communications from that of accountability. Insofar as the unfavourable publicity surrounding 1988 rate increases was concerned, I believe unclear accountability was the underlying cause. The reported mix-up in communications was simply a manifestation of a far deeper problem. The solution, I believe, lies in greater and better-defined accountability as I propose in Position Paper No. 1.

Regardless of whether the corporation or the government was right over the question of a rate increase, it is clear that the action which the government took had a very disruptive effect upon public confidence in MPIC. In contrast, I am informed by a commission staff member who visited British Columbia for the commission, that ICBC levied rate increases as high or higher than did MPIC without any public outcry. I am informed that ICBC, not the British Columbia government, informed the public months in advance.

The lesson which may be learned, I think, is that given the resources and the professional responsibility to develop a long term competent communications plan, for which the communications department is accountable and has ownership, a government's sudden wrenching from the corporation unto itself of the communications functions would be unnecessary. Whatever increase was ultimately approved, the likelihood of an increase and the reasons for it could have been made public by the corporation long before the rates themselves were announced.

People, in my opinion, will better tolerate unpleasant news which is founded on what is already common knowledge than if it is thrust upon them by a process which seems unusual and for reasons that are unclear.

Recommendation No. 10.04: That the corporation, in accordance with and subject to the commission's recommendations concerning accountability, develop an independent corporate communications mandate and, further, that this be reinforced by the corporation's assumption of responsibility for announcing changes in rates or in the organization, including appointments of all senior staff.

2. Centralized Government Communications

The communications services division of the Manitoba department of culture, heritage and recreation has had an important effect upon MPIC's corporate communications. Formed in 1971, the communications services division was originally called the advertising audit office. Its purpose was to purchase advertising media for all government departments and obtain frequency discounts and advantages of scale. Through this central buying agency the government sought to reduce its costs and exercise greater control over expenditures. I am advised that it has accomplished these objectives.

Over the years, however, the division has assumed a more direct role in the advertising functions and decisions of government departments. The commission's consultant provided a list of the steps that MPIC must follow in working with the communications services division (CSD). This list, presented in Exhibit 4, reflects the consultant's understanding of the process as it was described to him by communications officials of the various Crown corporations. Officials of CSD hold a different opinion about how the system does or _should_ work.

The commission's consultant criticized CSD's role. On page 11 of his report, he reported that the main flaws in CSD's relationship with MPIC and other Crown corporations were the following:

"o _Accountability_ - by the time an advertising campaign has gone through this process, it is easy for the originators to disavow anything that has gone awry.

o _Timeliness_ - this process tends to take from four to five months to complete. I believe this is about twice as long as would be the case in private industry.

o _Continuity_ - one of the key factors in a communications plan is continuity and consistency. This is difficult to achieve when agencies are appointed on a project by project basis.

o _Which Master_? - another question of accountability. To whom does the advertising agency owe its allegiance? In private business practice there is no question. Allegiance is owed to the client, the person who pays the bills. In the foregoing scenario, the client is at the bottom of the pile. So, from whom does the agency take direction?"

The community services division responds to those criticisms as follows:

" A. Accountability - As noted, a public affairs management issue or the implementation of a communications program will, because of the workings of government, involve input from a number of sources. However, the client's communications function is ultimately responsible for the delivery of a program to meet the various needs which may exist.

B. Timeliness - The process of advertising agency selection normally takes six to eight weeks. This process has been reduced to three weeks if required. Just as in the private sector, there may be delays. The suggestion that the process takes four to five months is exaggerated.

C. Continuity - Communications planning is the responsibility of an organization's senior communicator. Ensuring that continuity and consistency are achieved is the manager's responsibility. Effective direction to suppliers, a well defined strategic purpose and executive management support contribute to this. The reference to agencies being "appointed on a project by project basis" is unclear. With respect to MPIC and indeed other clients of the division, this has not been the case. Agencies are not normally assigned on a "project by project" basis. This was noted and explained in an interview with the consultant.

D. Which Master? - To repeat, the client is responsible for ensuring that an advertising agency delivers a product which meets the objectives of a program. Division operating practice supports the agency seeking direction and approval from the client. It is incumbent upon the client to obtain any necessary internal approvals. These normally will address broad strategic considerations. As noted, program objectives may require the inclusion of a broader strategic or policy consideration of government. It is the client, specifically the client's communications manager, who provides day-to-day direction to an agency and to the achievement of all program objectives, the latter at least in part being in response to the interests of several areas of government."

I am advised that a centralized government communications service is most useful in:

- Assuring that advertising agency work is reasonably and fairly distributed among a number of qualified firms.

- Achieving economies and other benefits in purchasing advertising space or commercial time.

Very much beyond those functions, the role of a central agency may be or may be seen to be a bureau of government propaganda. Exercising a role very much beyond the above functions relieves the corporate communications department of responsibility. Instead of promoting excellence "because my name is on it", it promotes lack of incentive "because 'they' have their own agenda and discount me anyway".

It is not my purpose to criticize the work of the CSD. It is a division of a government department which carries out tasks assigned to it by the government. I have no reason to suspect that it fails in any way to perform its function well. My concern is directed, rather, at a government policy which may fail to recognize that MPIC, being a commercial enterprise and not a government department, has its own unique communications needs and that its ability to act should not be circumscribed by government policies implemented and enforced by CSD. It seems clear to me that CSD does act in a supervisory role.

Recommendation No. 10.05: That the corporation be required to employ the services of the communications services division of the Manitoba department of culture, heritage and recreation only for assistance in selecting advertising agencies and in purchasing advertising space or commercial time, and that all other communications aspects, as they relate to government, be referred to MPIC communications through the usual chain of command -- i.e. from the minister responsible to MPIC to the chairperson of the board.

3. Press Releases

Depending on the nature of the announcement or subject matter, two different news release mastheads are used for corporate announcements. One is an MPIC masthead and the other is that of the government's news services branch.

Exhibit 5 is a copy of a government news release containing the announcement in March 1988 of a major reorganization of MPIC. Since the minister, rather than the corporation's chief executive officer, made the announcement, the public could not be faulted for concluding that the government was running MPIC. If the minister was speaking as chair of the board, then, in the opinion of the commission's consultant, the MPIC masthead would have been more appropriate.

Another inconsistency, in the consultant's view, was a press release issued by the minister on MPIC letterhead about the good driver merit discount program. In the same news release, the appointment of this commission was announced. The commission's consultant believes that these were two separate issues that should have been announced in two separate releases -- one by the corporation on its letterhead and the other by the minister on the government news release form.

What is important in the consultant's view of the proprieties of form in giving news releases is that, if acted upon, his proposals would strengthen the environment within which the separate accountability of government on the one hand and the corporation on the other would be fostered.

Recommendation No. 10.06: That all announcements of corporate decisions or corporate actions be made by either the chief executive officer or the chairperson of MPIC and, further, that corporate mastheads or letterheads be used exclusively for these announcements.

Recommendation No. 10.07: That government decisions and actions concerning the corporation or Autopac be announced by either the minister responsible for The Manitoba Public Insurance Corporation or the premier and, further, that governmental or ministerial letterheads and mastheads be used exclusively for these announcements.

E. LEADERSHIP OF CORPORATE COMMUNICATIONS

MPIC has had four chief executive or operating officers in the last five years. The commission's consultant advises that this turnover has hindered MPIC's communication with the public. The corporation's senior officer is the central figure in MPIC's communications. Understandably the chief executive officers have had difficulty developing a public presence during their abbreviated terms of office. This, together with the undermining effect of the role of CSD and inadequate staffing, appears to have impeded the development by MPIC of a long range communications plan to present the corporation's image of itself and its programs.

Recommendation No. 10.08: That MPIC assess opportunities to improve the level of its communications by long term planning related to the corporate mission statement, and by forthright disclosure of its current position and future prospects.

F. NEEDS FOR COMMUNICATIONS STRATEGIES

With the exception of the promotion of traffic safety, the corporation's communications appear to have been mostly reactive. The commission's consultant reported that little attention had been paid to identifying problems in the corporation's relations with policyholders, suppliers and employees. The commission's consultant also believes that the corporation, when confronted with evidence of a major breakdown in communications, has had little success in developing and managing a long term solution. He reported that communications staff have spent most of their time responding to requests by other parts of the corporation rather than on the ongoing delivery of communications programs. This has been particularly acute during crises or controversies. During these periods, the commission's consultant reported that the corporation's ability to respond was limited by insufficient staffing.

The commission's consultant believes that the focus of the communications department's work has been reactive, often to situations of crisis. He believes that the on-going programs are insufficient. Although the safety program is now a regular program of the corporation, he informed me that he believes the corporation would not be engaged in this promotion had the government not insisted. He reported that most of the suggestions that were considered, while the program was being designed, were offered by staff of the division of driver and vehicle licencing and not the communications employees of the corporation. He considers this further evidence of the corporation's current inability to set and pursue its own objectives independently. The consultant described how this posture has inhibited the following aspects of the corporation's communications.

1. Advertising and Promotions

The commission's consultant discovered a need for greater consistency and continuity in MPIC's promotions; he reported that this was evidence of a requirement for long-term planning.

The consultant advised that the budgets set for promotion during the past five years may have been inadequate for the development of informational materials such as brochures containing descriptions of individual Autopac services. For the past five years the following amounts were provided for promotion:

MPIC's Budget for Non-Safety Promotions for the Past Five Years

Fiscal Year Ending October 31	Approved Budget
1984	$ 33,200
1985	$ 34,800
1986	$ 56,800
1987	$ 38,700
1988	$190,500

The large increase in 1988 includes the estimated expense of promoting the newly-introduced merit driver program. The commission's communication consultant found that most of the expenditures for the current fiscal year were incurred in producing two brochures, the Insurance Guide and a pamphlet on the Dial-a-Claim service. In contrast, during the same period, ICBC prepared 21 different publications. These were designed to provide information on claims procedures, special coverage and the needs of particular groups of motorists. On page 24 of his report the consultant states,

> "In my opinion, these expenditures were so low as to be ineffective."

The commission concurs with the opinion of its consultant.

Recommendation No. 10.09: That the corporation reassess its non-safety promotion budget and that such greater resources be allocated to the communications department as will enable it to develop better awareness programs.

2. The Importance of Targeted Communications

Needs for information about the corporation and its services are not the same for all segments of the community. In designing its communications programs, it is important that the corporation determine which groups require information, what information they need and, finally, the best means to convey this to them. Responsibility should lie with the communications department for identifying those segments of the community that should be the targets of corporate communications programs. The commission's consultant advises that non-communications management should participate in discussions about the information needs of specific segments of the community. A consensus by management on communications priorities should be the basis of long-term communications plans and budgets.

The commission's consultant reported that there had been only limited analysis by MPIC of communications needs in terms of particular segments of the community. Even this work, he reported, was done only in response to a crisis. Instead, he proposed that the corporation identify key segments of the community before problems emerge so that they may be prevented.

I concur with the consultant's view that,

> ". . . there can be no effective, overall planning of the public relations function. Crisis situations occur in every corporation in which it becomes necessary to formulate an emergency strategy, but without a clear understanding and identification of whom you are addressing, the entire program execution must be on a re-active (sic) basis and may not be addressing the right public."

Recommendation No. 10.10: That the corporation evaluate the needs of the public for information on Autopac and MPIC in terms of:

- Individual segments of the community that are either served by the corporation or contribute to its work.
- The particular wishes or needs of each such segment for specific information about Autopac or the corporation.
- The best means by which the required information may be conveyed to particular segments of the public.

And further, that this information be used as the basis of a long-term plan to improve communications between the corporation and the public.

3. Planning Safety Promotions

The corporation devotes most of its promotional resources to safety. During the past four years, the communications department's safety program budget was increased as other government departments, notably the division of driver and vehicle licencing, transferred responsibility for these programs to MPIC.

The corporation's safety program covers many themes and provides useful information. The commission's consultant advised that the effectiveness of the safety promotion could be enhanced by a communications strategy and by improved continuity, focus and sponsor credit.

Recommendation No. 10.11: That the corporation develop a communications plan for its safety promotion to provide consistency, continuity and strong corporate identification.

IV. OPPORTUNITIES TO ENHANCE CURRENT PUBLIC RELATIONS ACTIVITIES

The commission examined the particular types of community activities carried out by the corporation. Each of these is discussed under individual headings.

A. PUBLIC SPEAKING

The corporation's managers, the chairperson and the minister responsible for MPIC can all contribute to greater public awareness of the corporation. Speeches serve as a vehicle for providing information to specific segments of the community. Since speeches are often reported in the printed and broadcast media, they also offer the opportunity for the corporation to communicate indirectly with the general public. Therefore, the communications department can help enhance the corporation's position by seeking opportunities for officials to speak and by preparing and distributing speaking materials.

The commission's consultant reported that the corporation's managers make relatively few public speeches. He also advised that the corporation has not consistently sought invitations nor offered to make speakers available, unless specifically invited. However, I understand that the corporation's acting chief operating officer has made known his interest in addressing the members of the public and, further, demonstrated his willingness to do so.

B. MEDIA RELATIONS

The development of effective relations with the print and broadcast media is both a sensitive and lengthy process. It too, depends upon careful planning and execution. The commission's consultant found little evidence, for example, that the corporation had taken much initiative in its approaches to the media.

The commission's consultant recommended that the corporation build a stronger relationship with print and broadcast journalists. He advised that representatives of the media need to be informed about both Autopac and MPIC if they are to report accurately on issues affecting the corporation. He proposes the corporation improve the flow of information to the public by providing information to the press regularly. In the past, however, most of the corporation's contact with journalists has occurred during periods of controversy.

C. COMMUNITY RELATIONS

The commission's consultant advised that MPIC could improve its public relations by developing communications tools. These would be comprised of audiovisual presentations, speaker programs and greater corporate participation in community activities such as the sponsorship of events organized by non-profit groups with an interest in traffic safety.

The corporation does have a community relations program. Most of its effort is directed to promotion of traffic safety. I am advised that the corporation's efforts to promote, through community activities, the use of child restraints have been well received and have enhanced MPIC's reputation.

The commission's consultant advised that Autopac agents are an untapped resource for the corporation. Many agents are active members of philanthropic and other associations and are well known in their communities. He believes the agents could assist the corporation to make connections with local organizations through which MPIC could work to increase public awareness of traffic safety and the corporation's automobile insurance program. However, I am advised that this might cause difficulty for some agents whose loyalty is divided between MPIC and other insurance companies they represent. Nevertheless, I believe there may be benefit in the corporation holding discussion with representatives of the agents' association and with individual agents about measures the corporation might take to create greater awareness at the community level.

Recommendation No. 10.12: That the corporation hold meetings with representatives of the agents' association, or directly with the agents, concerning the corporation's participation in community activities and opportunities to create greater awareness of MPIC and Autopac.

D. RELATIONS WITH ELECTED OFFICIALS

Members of the provincial legislature, parliament and municipal councils are well placed to read public opinion. Their constituents frequently seek their assistance when they are dissatisfied with the service provided by a Crown corporation or other governmental organization. Moreover, through their contact with individual citizens, elected officials are in an a good position to provide information about the services provided by a governmental organization such as MPIC. Members of the Legislative Assembly of Manitoba, in particular, should be kept informed about the corporation and Autopac developments. Annual meetings with members of the standing legislative committee on natural resources, as are now held, do not provide sufficient opportunity for MLAs to acquire adequate background information.

The commission's consultant recommended that the corporation monitor political debate about Autopac more closely and take greater initiative in explaining the corporation's position to elected officials. In my opinion, the corporation's attempt to answer, directly, questions raised in political debate would be improper and destructive to its separation from the political process. The minister responsible has the function of dealing with political questions. For answers to specific questions, MLA's may now request information directly from corporate officials. The communications department, in my opinion, should not be seen to defend itself in the political arena.

Recommendation No. 10.13: That the corporation develop a proram to keep elected officials informed about Autopac developments in accordance which guidelines approved by the minister responsible for The Manitoba Public Insurance Corporation.

E. INTERNAL COMMUNICATIONS

Two employee publications are currently issued to employees: a quarterly magazine and a bimonthly tabloid newspaper. Between these two publications, employees receive at least ten issues a year. The magazine-style publication is also distributed to Autopac agents.

The commission's consultant regards both publications to be sound communications vehicles. He advised that their value would be enhanced considerably if they were published more frequently to provide greater opportunity for the timely announcement of corporate events such as retirements, promotions and social functions.

The commission's consultant commended MPIC for its "Answer" program. This allows employees to submit questions to senior management on any corporate topic and then receive an answer. A selection of questions and answers is reproduced in one or the other of the company publications. The Answer program has recently been complemented by staff meetings and the increased distribution of memoranda to all staff. I believe these initiatives are both beneficial and required.

The human resources department has undertaken a full-scale employee attitude survey and an employee communications audit. I understand the information so provided will assist the corporation to improve its internal communications.

Recommendation No. 10.14: That the corporation assess all opportunities to improve its internal communications that were identified during the employee attitude studies conducted by the human resources department.

F. CUSTOMER SERVICES

The customer services department is responsible for responding to inquiries or complaints. Between November 1, 1987, and March 31, 1988, the seven members of the department's staff received approximately 35,000 telephone inquiries. Most of the callers sought information or expressed criticism about the increases in Autopac rates for the 1988 insurance year.

The commission's communications consultant advised me that there is significant potential for the corporation to maintain additional statistics of the inquiries it receives. Currently, a running tally is made of calls in each of several inquiry categories. He proposed that the corporation adopt a more detailed classification of the subject of each inquiry. He said that this information would be helpful in identifying emerging public issues and changes in public attitudes. In turn, this would permit the corporation to take steps to prevent public misunderstanding.

Recommendation No. 10.15: That the corporation record in greater detail the subject of customer inquiries or complaints and, further, that the corporation prepare statistical summaries of this information.

The department's customer services manager also acts as an unofficial ombudsman. He often serves as a liaison between other departments of the corporation and individual policyholders, claimants or other members of the public. The consultant proposed that the customer services manager be given the title of Autopac ombudsman. To be given the title without the independence which an ombudsman requires would be of questionable value. I approve of the role assumed by the manager. It is a role that should be emulated by other corporate personnel. In other papers of the commission including The Public Concern Paper and Position Papers Nos. 2 and 4, the role and recommended role of the provincial ombudsman are discussed.

G. CORPORATION'S ANNUAL REPORT

The commission's consultant informed me that, in his opinion, the corporation's annual report was well designed and produced. However, he recommended that it contain more information about developments within the corporation and changes outside that have had or could have a direct impact upon Autopac. For example, in its report for the year ending October 31, 1987, there was relatively little statistical information on the corporation's worsening loss experience.

I am advised that both the Insurance Corporation of British Columbia and la Regie d'assurance automobile du Quebec publish far more comprehensive annual reports. ICBC, in particular, is consistent in informing policyholders about rising claims costs and needs for increased rates. Both ICBC and the Quebec regie provide much more information about corporate activities. For its tenth anniversary, ICBC published a special annual report in which readers were reminded of the corporation's history and progress. This subject is addressed, as well, in Position Paper No. 1.

Recommendation No. 10.16: That the corporation expand its annual report to provide more detailed information on its plans, operations, organization and loss experience.

V. THE NEED FOR PRODUCT MARKETING

I am advised that there have been major changes in marketing practices during the past 30 years. Once viewed as sales management, marketing has become a much broader discipline. As practiced by many large corporations, marketing encompasses the development of new markets and the planning of new products or services. I am advised that distribution is now recognized as an important part of marketing. For example, to assess how Autopac is distributed, an evaluation is needed of the role of Autopac agents and other channels used by MPIC to provide insurance to its policyholders.

A. ORGANIZATION OF AUTOPAC MARKETING

Up to the reorganization of MPIC in March, 1988, the corporation did not have an explicitly identified marketing department. Following the reorganization, a department was created to manage the Autopac agency system. Thus, the marketing of Autopac is now conducted by both this department, which is responsible for distribution, and by the corporate communications department that oversees product advertising and promotion. The activities of the two departments encompass most marketing activities, except market research and planning -- both of which are outside the scope of this paper on corporate communications.

Marketing is recognized as an essential function for organizations that must compete. Since MPIC is a monopoly it can be argued that there is less need for marketing. I am advised that this is not correct. The commission's consultant informed me that marketing is important for MPIC for the following reasons:

- The corporation's automobile insurance business is supported by an extensive distribution system encompassing 378 agencies.

- MPIC's customer base is large and diverse.

- There are periodic requirements for the corporation to modify the coverage provided by Autopac and to explain these changes to the public.

- Autopac rates are usually changed annually and must be publicized.

- The corporation has varied business relationships with private motorists, operators of commercial vehicles and the automotive trade.

- The corporation has geographically dispersed operations.

Despite the lack of competition, the corporation must still inform policyholders and others about its services. While MPIC may not need to advertise as extensively as private insurance company, it must still use advertising and other communication channels.

As a monopoly, MPIC has an added reason for advertising and otherwise promoting Autopac. If consumers were able to choose their supplier of automobile insurance, they could shop and compare premiums asked and benefits provided by different companies. In a monopoly market there are no alternatives. Hence, there is greater potential for doubt about value. To overcome this, it is necessary for government monopolies to provide clear information as to costs and benefits.

B. MARKETING COMMUNICATIONS

Motorists in Manitoba do not get an insurance policy when they purchase Autopac. They are informed that the rights and obligations of policyholders are set out in legislation and regulations. The corporation offers only one brochure, the Autopac Insurance Guide, which is offered only when the policyholder requests it. The commission's consultant believes that the corporation could improve its marketing communications substantially by providing more product information.

The Insurance Corporation of British Columbia publishes 21 brochures. Exhibit 6 is a table containing a list of ICBC's brochures. In this exhibit, it can be seen that MPIC publishes only two documents that can be compared to any of the 21 brochures distributed by ICBC. The British Columbia corporation has separate brochures containing descriptions of specific claims services, particular types of vehicle insurance coverages, advice for claimants and information for young drivers. In contrast, MPIC provides a brochure on its Dial-a-Claim service and, as mentioned, the Autopac 1988 Insurance Guide. Although the Insurance Guide is quite complete and, I am informed, well-designed, it cannot be considered a substitute for the more specific brochures published by ICBC.

While I doubt it would be feasible for MPIC to publish the same extensive array of materials as ICBC, I believe that the corporation requires much more than the two publications it now offers. The commission's consultant advised that ICBC has responded to public demand in packaging its information in a convenient manner. Policyholders or claimants can get the information they seek on an individual subject. They do not have to read a document that contains a considerable amount of information that is of little interest to them.

Previously, I discussed the communications departments budget for non-safety promotion. If the corporation is to improve the supply of its marketing information, the budget will have to be increased as I recommended earlier.

Recommendation No. 10.17: That the corporation provide information on Autopac services by developing a set of brochures on the following individual subjects:

- Autopac insurance for private motorists.
- Autopac insurance for operators of commercial vehicles.
- Autopac extension coverage.
- The Autopac fleet insurance program.
- Autopac driver's premiums, merit premium reductions and driver premium surcharges.
- Advice for vehicle damage claimants.
- Autopac bodily injury claims policies and procedures.
- The Autopac time payment plan.
- Autopac appeal procedures.

And further, that the corporation assess opportunities to distribute widely these brochures in mailings to policyholders, through Autopac agents and through Autopac claims centres.

C. ENHANCING THE ROLE OF AGENTS

Autopac agents occupy the front line of the corporation's relations with policyholders. For accident-free motorists, agents may be the only representatives of the corporation with which they have contact. Even this interaction may not be that satisfactory due to the current rush by policyholders in late February to arrange new coverage. In Position Paper No. 4 I make a number of recommendations that, if implemented, would change the renewal system. If the corporation were to provide renewal on the birthday of the individual vehicle owner, I am advised that Autopac agents might have more time to provide information about Autopac and the optional coverage MPIC provides.

There are other steps the corporation could take to strengthen the role of Autopac agents. The commission's consultant advised that agents, in their discussions with policyholders, could help reduce misunderstanding about Autopac and MPIC if they were kept better informed. For example, the Insurance Corporation of British Columbia publishes a biweekly bulletin specifically for agents. In the May 9, 1988, issue, the corporation described its higher than projected losses in the first quarter of its fiscal year. Agents were able to use this information to explain to policyholders why increased rates were necessary. ICBC also distributes press clippings to its agents. Agents are asked to assist the corporation in arranging local speaking engagements for the ICBC's officers. Finally, ICBC agents share responsibility with the corporation for delivering safety programs in their communities.

Based upon the initiatives taken by ICBC and the advice of the commission's consultant, I believe Autopac agents should have a far more prominent role in assisting the corporation in maintaining good relations with the public.

Recommendation No. 10.18: That the corporation evaluate the experience of the Insurance Corporation of British Columbia in securing the assistance of its agents to improve public awareness of ICBC and its automobile insurance program and, further, that MPIC consider a similar role for Autopac agents.

Both Manitoba Hydro and Manitoba Telephone System have highly developed marketing communications programs. While it may not be possible for MPIC to develop a program that is as extensive as that of ICBC, I believe its own efforts should compare favourably with those of other Manitoba Crown corporations. Certainly, both MTS and Hydro seem to have recognized the importance of providing information to customers despite their monopoly status.

VI. PROMOTION OF TRAFFIC SAFETY

The corporation currently offers the following safety programs:

- Traffic safety promotion.
- High school driver education.
- Bicycle safety program.
- Promotion of the use of child restraints.
- Trucker safety awards.
- Snowmobile safety promotion.
- Vehicle inspections.
- The "Alive" program.

The corporate communications department is responsible for promoting vehicle traffic safety. Non-promotion programs, such as vehicle inspection, are the responsibility of the new safety department that was created in March, 1988. The main safety promotion programs are next each described.

1. "Alive" Campaign

The "Alive" campaign is a multimedia public education program, which targets a variety of safety issues such as drinking and driving, pedestrian safety and seatbelt usage. A memo furnished by MPIC to the commission indicates that in the fiscal year 1986/87 it spent $375,000 on this campaign. For the fiscal year 1987/88, its budget allocation of $350,000 was reduced by $100,000 in order to advertise the 1988/89 merit discount program.

2. Driver Education

Prior to April 1, 1987, driver education was the responsibility of the Manitoba department of highways. From that date, MPIC assumed responsibility for providing a program of driver training for high school students, as well as overseeing the conduct of commercial driving schools within the province. While instruction in vehicle operation is the main goal, the program is also an important means for promoting traffic safety.

It appears that significant financial assistance has been provided for professional driving training. For the seven months during which MPIC was responsible for the program in its 1986/87 fiscal year, 8,301 students graduated from a professional driving training course at a cost to MPIC of $559,959. In its fiscal year 1987/88, 9,056 students are expected to graduate from the corporation's sponsored program at an expected cost to the corporation of $1,343,141.

3. Snowmobile/Bicycle Safety Program

Again this program was assumed by MPIC on April 1, 1987. Information as to the nature of the programs, received by the commission by MPIC, is not precise. It appears, however, that the bicycle safety program was conducted through the schools from April 1, 1987, to October 31, 1987, and that 32,802 students participated in the program. For that same period, 23,005 persons participated in the snowmobile program. The total cost of both programs was $92,569.

In the full fiscal year 1987/88, 31,104 students participated in the bicycle safety program and 2,818 persons participated in the snowmobile safety program at a total cost to the corporation, for both programs, of $235,129. The decrease in student participation in the bicycle program between the two fiscal years is attributed by MPIC to "many schools opting to participate in the bicycle program once every two years". In addition, the bicycle safety program competes for classroom time with other programs offered through the schools, such as swimming, camping and numerous other field trips.

3. Safety Promotion

I have received no precise information as to the nature of the external programs which the corporation funds. I have been made aware, only through the public meetings which the commission held, that the Manitoba Safety Council received a grant of $35,000. MPIC advises that most of the budget of the corporation's safety department is allocated to the "safety grants program". It advises that, during the 1986/87 fiscal year, its expenditures totaled $357,756 and that the department's budget for the current fiscal year totals $218,699.

In summary, the corporation advises that in its 1986/87 fiscal year it expended $1,700,581 on traffic safety initiatives, and that an anticipated $2,378,969 will be expended in the current fiscal year.

The school curriculums on traffic safety developed by the Quebec regie, which are mandatory throughout the educational system there, are likely, in my opinion, to enhance safety awareness and produce a generation of more safety-conscious young (and eventually older) drivers.

Another department is responsible for driver licencing and for the licencing of driving schools. Since the financial cost of accidents bears upon the corporation so heavily, it is in its interest to scrutinize the curriculums and training methods of driving schools. The mechanics, the skills of driving and a good knowledge of the rules of the road are important, but the attitude with which a student graduates is equally important. I think MPIC, through its own experts in traffic safety or through consultants, is the appropriate authority to examine the quality of instruction provided by driving schools.

During my visit to the Quebec regie, I learned that it is actively engaged in safety initiatives. It belongs to the standing committee on road safety research and policies of the Canadian council of motor transport administrators. That committee has held three meetings annually during the past three years. The corporation representative who attended those meetings advised that he had not met anyone from MPIC, although he did meet a representative of the Manitoba department of highways.

The Quebec regie has worked with the department of education since 1982 developing programs for school divisions. The programs have been integrated and made mandatory within school curriculums. The Quebec regie trains the teachers to deliver these courses. Traffic safety education is given at all levels of education from kindergarten to Grade XII.

While in the early years following 1978 the Quebec regie aimed its safety program at broad targets such as "sharing the road" or "drinking and driving", it has since developed specific programs. In 1986, it developed a plan to reduce accident casualties by 25 percent over a period of three years. It aimed at 80 percent seatbelt usage and identified impaired driving and speeding as priorities.

In the belief that publicity was not enough, its safety program now includes initiatives in both education and enforcement. An example of such a program is "STEP" (selected traffic enforcement program). Under that program, through cooperation with police departments, it aims at any given time at one specific target, such as enhancing the use of seatbelts. The program is focused in a specific location for perhaps one month. During that month the police will concentrate on seatbelt enforcement. Motorists found to be wearing their seatbelts may receive a certificate for a free soft drink or hamburger. Those found not be be wearing their seatbelts may receive a ticket. "Private partners" cooperate in the program by providing the instant prizes free. It is estimated by the Quebec regie that, through their program, they have increased the use of seatbelts from 53 percent in 1985 to 85 percent in 1987, and that the corporation has saved $55 million in losses through injuries or fatalities.

The Quebec regie does not, itself, provide driver training in the schools or elsewhere. It works with police departments, the impaired driving committee, the attorney general's department, the health and welfare department, the department of education, parents' groups and safety organizations.

The commission's communication consultant questioned whether safety programs, including safety promotion, should be the responsibility of MPIC. In his opinion, they should be delivered by a department of government. I do not fully share this view. I believe that well-designed safety promotion programs have the potential to reduce accidents and, therefore, the corporation's losses.

Government automobile insurance plans in Quebec, Saskatchewan and British Columbia are all committed to promotion of traffic safety. I am also advised that private insurance associations are active in this field.

Aggressive activity in safety promotion can have only beneficial results in terms of insurance losses. Although the corporation is presently engaged in safety promotion, I think that its involvement could be greater.

The cost of safety programs is, of course, a factor which cannot be ignored. Costs cannot be related directly, however, to benefits, nor is it possible, except over a long period, to be able to assess the financial rewards to the corporation of its safety programs. Because the corporation is required to conduct itself on a self-sustaining basis, its safety initiatives may suffer because of lack of funds. From documentation received from the corporation, I am aware, for instance, that a significant portion of the safety budget was redirected in 1988 to pay for the cost of advertising the merit reduction program.

Given the importance of traffic safety, budget allocations for safety promotion should not be diverted. In Position Paper No. 3, (at p.41) I recommend that driver training programs be the responsiblilty of DDVL. Traffic safety promotion, however, including research (see Position Paper No. 11 at p. 22), the evaluation of various driver training methods and the development of compulsory school curriculums to promote traffic safety awareness require attention.

Recommendation No. 10.19: That funding for safety promotion by MPIC be assured through the enactment of a statutory budget allocation equal to a fixed percentage of the corporation's premium income. Further, that the corporation, with the corporation and financial participation of government departments with a specific interest in traffic safety, enhance its safety promotions. These should include new initiatives in safety research, evaluation of various driver training methods and the development, with the cooperation of the department of education, of compulsory school curriculums.

VII. SUMMARY OF MAIN CONCLUSIONS

The commission concludes as follows:

- The distinction, at least for the public, between the communications responsibilities of the corporation and the government have been unclear.
- Frequent changes in the senior management of the corporation have diminished the ability of the corporation to maintain a credible public presence.
- The information currently provided to policyholders and claimants about Autopac is inadequate; there is need for promotional materials on individual subjects to augment the corporation's current Autopac publications.
- The corporation has effective programs for internal communications including publications for employees.
- The corporation has yet to define how its communications will help it achieve corporate goals.
- The promotion of traffic safety is a communications function of MPIC.

VIII. RECOMMENDATIONS

The commission's recommendations are as follows:

Recommendation No. 10.01: That the MPIC communications department be restructured along functional lines and responsibilities assigned to individual professional staff for specific and distinct tasks. (Page 7)

Recommendation No. 10.02: That the corporation consider, in addition to a more specific assignment of the responsibilities to individual employees, a modest expansion of its public relations and advertising staff. (Page 11)

Recommendation No. 10.03: That MPIC's professional communications staff enhance their professional development by participating more in professional associations, seminars and training to increase their capabilities to manage diverse and sophisticated modern communications programs. (Page 11)

Recommendation No. 10.04: That the corporation, in accordance with and subject to the commission's recommendations concerning accountability, develop an independent corporate communications mandate and, further, that this be reinforced by the assumption by the corporation of responsibility for announcing changes in rates or in the organization, including appointments of all senior staff. (Page 14)

Recommendation No. 10.05: That the corporation be required to employ the services of the communications services division of the Manitoba department of culture, heritage and recreation only for assistance in selecting advertising agencies and in purchasing advertising space or commercial time, and that all other communications aspects, as they relate to government, be referred to MPIC communications through the usual chain of command -- i.e. from the minister responsible to MPIC to the chairperson of the board. (Page 18)

Recommendation No. 10.06: That all announcements of corporate decisions or corporate actions be made by either the chief executive officer or the chairperson of MPIC and, further, that corporate mastheads or letterheads be used exclusively for these announcements. (Page 20)

Recommendation No. 10.07: That government decisions and actions concerning the corporation or Autopac be announced by either the minister responsible for The Manitoba Public Insurance Corporation or the premier and, further, the governmental or ministerial letterheads and mastheads be used exclusively for these announcements. (Page 20)

Recommendation No. 10.08: That MPIC assess opportunities to improve the level of its communications by long term planning related to the corporate mission statement, and by forthright disclosure of its current position and future prospects. (Page 20)

Recommendation No. 10.09: That the corporation reassess its non-safety promotion budget and that such greater resources be allocated to the communications department as will enable it to develop better awareness programs. (Page 23)

Recommendation No. 10.10: That the corporation evaluate the needs of the public for information on Autopac and MPIC in terms of:

- Individual segments of the community that are either served by the corporation or contribute to its work.
- The particular wishes or needs of each such segment for specific information about Autopac or the corporation.
- The best means by which the required information may be conveyed to particular segments of the public.

And, further, that this information be used as the basis of a long-term plan to improve communications between the corporation and the public. (Page 24)

Recommendation No. 10.11: That the corporation develop a communications plan for its safety promotion to provide consistency, continuity and strong corporate identification. (Page 25)

Recommendation No. 10.12: That the corporation hold meetings with representatives of the agent's association, or directly with the agents, concerning the corporation's participation in community activities and opportunities to create greater awareness of MPIC and Autopac. (Page 27)

Recommendation No. 10.13: That the corporation develop a program to keep elected officials informed about Autopac developments in accordance with guidelines approved by the minister responsible for The Manitoba Public Insurance Corporation. (Page 28)

Recommendation No. 10.14: That the corporation assess all opportunities to improve its internal communications that were identified during the employee attitude studies conducted by the human resources department. (Page 29)

Recommendation No. 10.15: That the corporation record in greater detail the subject of customer inquiries or complaints and, further, that the corporation prepare statistical summaries of this information. (Page 30)

Recommendation No. 10.16: That the corporation expand its annual report to provide more detailed information on its plans, operations, organization and loss experience. (Page 31)

Recommendation No. 10.17: That the corporation provide information on Autopac services by developing a set of brochures on the following individual subjects:

- Autopac insurance for private motorists.
- Autopac insurance for operators of commercial vehicles.
- Autopac extension coverage.
- The Autopac fleet insurance program.
- Autopac driver's premiums, merit premium reductions and driver premium surcharges.
- Advice for vehicle damage claimants.

- Autopac bodily injury claims policies and procedures.
- The Autopac time payment plan.
- Autopac appeal procedures.

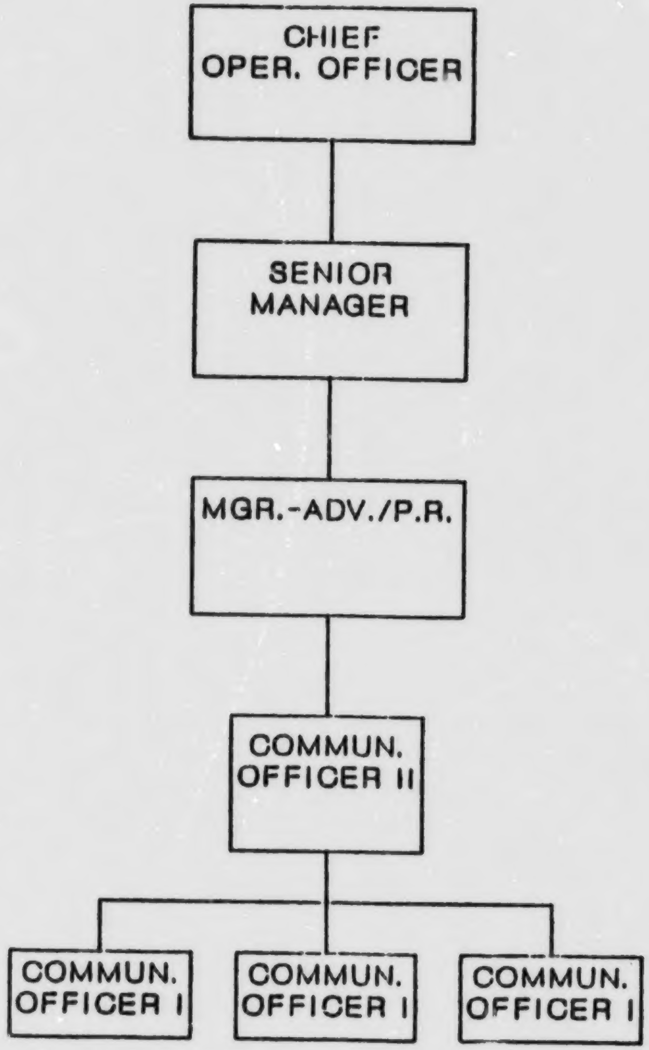
And, further, that the corporation assess opportunities to distribute widely these brochures in mailings to policyholders, through Autopac agents and through Autopac claims centres. (Page 34)

Recommendation No. 10.18: That the corporation evaluate the experience of the Insurance Corporation of British Columbia in securing the assistance of its agents in improving public awareness of ICBC and its automobile insurance program and, further, that MPIC consider a similar role for Autopac agents. (Page 36)

Recommendation No. 10.19: That funding for the safety promotion by MPIC be assured through the enactment of a statutory budget allocation equal to a fixed percentage of the corporation's premium income. Further, that the corporation, with the cooperation and financial participation of government departments with a specific interest in traffic safety, enhance its safety promotions. These should include new initiatives in safety research, evaluation of various driver training methods and the development, with the cooperation of the department of education, of compulsory school curriculums. (Page 42)

EXHIBIT 1

CURRENT MPIC COMMUNICATIONS STRUCTURE

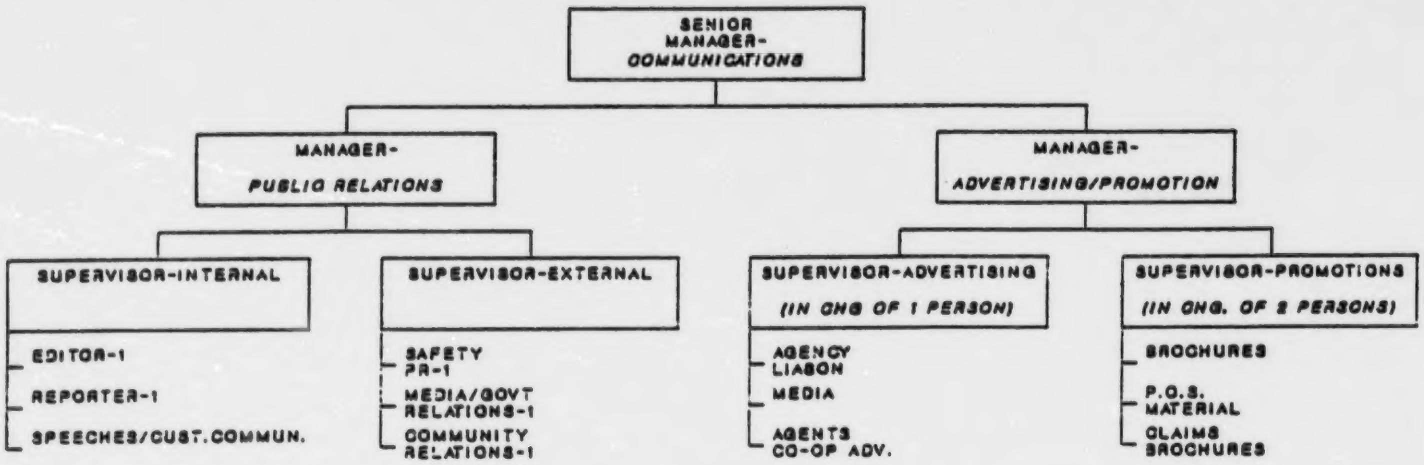

CHIEF
OPER. OFFICER
SENIOR
MANAGER
MGR.-ADV./P.R.
COMMUN.
OFFICER II
COMMUN.
OFFICER I
COMMUN.
OFFICER I
COMMUN.
OFFICER I

SOURCE: ROFFEY MARKETING CONCEPTS LTD.

EXHIBIT 2

AUTOPAC REVIEW COMMISSION

RECOMMENDED MPIC DEPARTMENTAL STRUCTURE


SENIOR MANAGER- COMMUNICATIONS
MANAGER- PUBLIC RELATIONS
MANAGER- ADVERTISING/PROMOTION
SUPERVISOR-INTERNAL
EDITOR-1
REPORTER-1
SPEECHES/CUST.COMMUN.
SUPERVISOR-EXTERNAL
SAFETY PR-1
MEDIA/GOVT RELATIONS-1
COMMUNITY RELATIONS-1
SUPERVISOR-ADVERTISING (IN CHG OF 1 PERSON)
AGENCY LIASON
MEDIA
AGENTS CO-OP ADV.
SUPERVISOR-PROMOTIONS (IN CHG. OF 2 PERSONS)
BROCHURES
P.O.S. MATERIAL
CLAIMS BROCHURES

SOURCE: ROFFEY MARKETING CONCEPTS LTD.

EXHIBIT 3

ICBC COMMUNICATIONS STRUCTURE

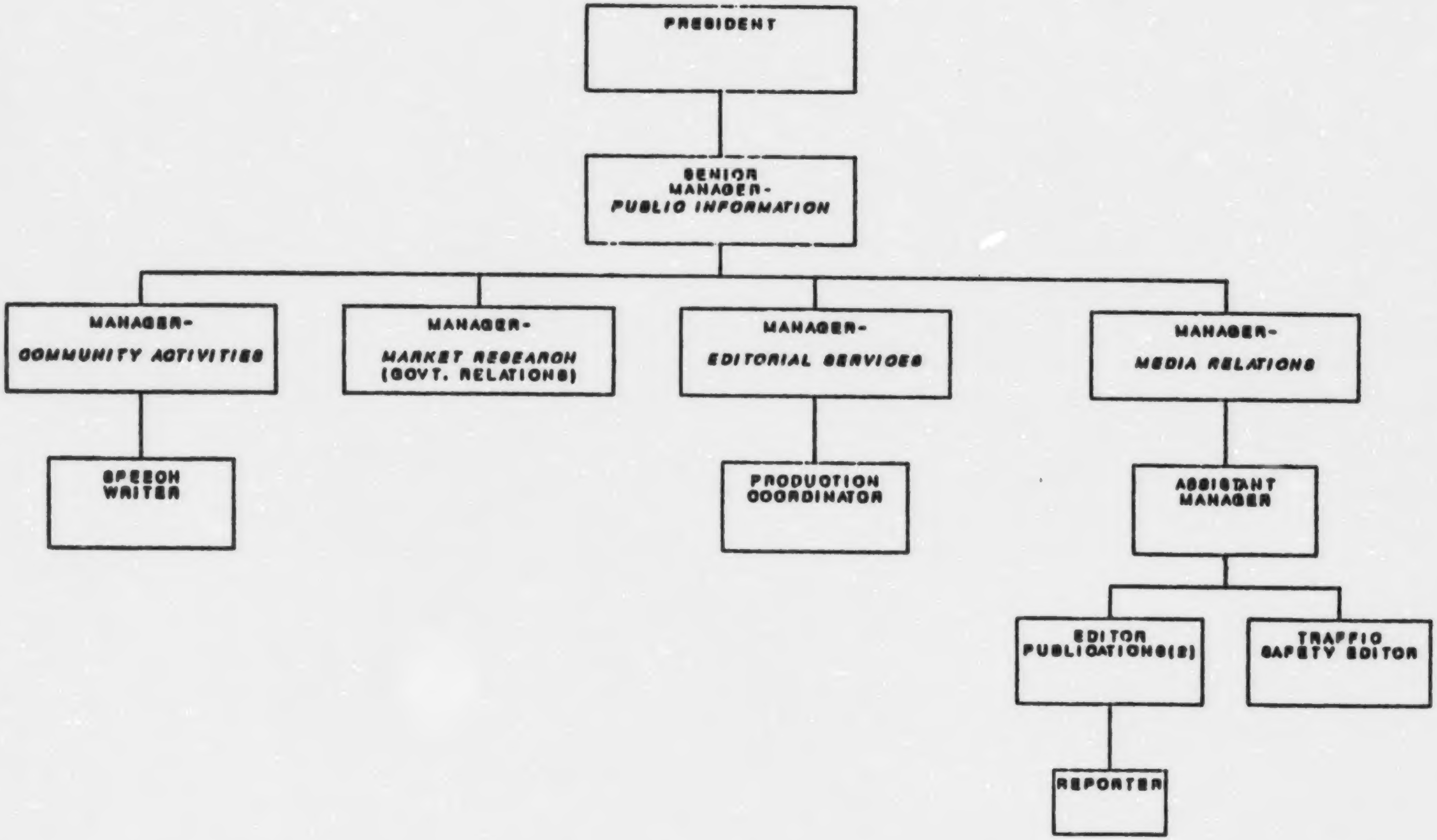

PRESIDENT
SENIOR MANAGER-
PUBLIC INFORMATION
MANAGER-
COMMUNITY ACTIVITIES
MANAGER-
MARKET RESEARCH
(GOVT. RELATIONS)
MANAGER-
EDITORIAL SERVICES
MANAGER-
MEDIA RELATIONS
SPEECH WRITER
PRODUCTION COORDINATOR
ASSISTANT MANAGER
EDITOR PUBLICATIONS(2)
TRAFFIC SAFETY EDITOR
REPORTER

EXHIBIT 4

- Work Plan prepared and submitted, along with budget, to executive.
- CSD is copied and form is completed outlining projects.
- When executive budget approval is received, memo goes out to CSD requesting the appointment of an advertising agency.
- Several agencies are invited to make a presentation (usually three or four depending on scope). MPIC prepares a briefing paper.
- Agency is selected by the Communications Committee of Cabinet. MPIC is not always involved in selection process.
- Agency prepares a proposal which is presented to MPIC and CSD. CSD then refers/takes proposal to Cabinet.
- Director of CSD becomes the arbitrator and the final decision on the proposal is taken by the Communications Committee of Cabinet.
- The Communications Committee of Cabinet will frequently make changes to the creative aspect of the campaign.
- CSD attends all pre-and-post-testing research sessions (focus groups).
- Upon final acceptance of the advertising proposal, CSD develops media plans.
- Actual media briefs are done either through the advertising agency or CSD.
- Creative final approval is made by the Communications Committee of Cabinet.
- Campaign is executed.
- CSD has established a guide-line that advertising agencies are to be reviewed every two years, although this is not always followed.

Source: Roffey Marketing Concepts

EXHIBIT 5

Manitoba AUTOPAC REVIEW COMMISSION

Information Services

Room 29
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

Phone: (204) 945-3746

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News Service

Date: March 7, 1988

URUSKI ANNOUNCES MPIC REORGANIZATION

Minister responsible for The Manitoba Public Insurance Corporation Bill Uruski today announced several changes to the executive management structure of the corporation.

Uruski said the changes, which take effect March 7, are designed to improve accountability at senior levles of the organization and to place increased emphasis on strategic planning and policy development within MPIC.

Major changes include the following:

- David R. Kidd, currently vice president, Systems and Information Support Services, becomes senior vice president for Insurance Operations. In this position, he will assume responsibility for all insurance aspects of MPIC's Automobile and General Insurance Divisions, inluding agency development, traffic safety education, underwriting, claims and systems.

- Barry W. Galenzoski, vice president, Corporate Planning and Business Studies, is appointed senior vice president for Corporate Services and Finance. He will be responsible for administrative and financial services, internal audit, ceded and assumed reinsurance and special investigations.

- Terry M. Petrishen, vice president, Automobile Insurance, becomes vice president for Agency Development and Safety Initiatives. This position, encompassing both Autopac and general operations, will focus on responsibility for agency relations, safety programming, driver education, vehicle inspection and impaired driving initiaitves; areas which require the corporation's senior level attention. He will continue to provide guidance and advice to the claims function.

- Joel A. Kalbfleisch, vice-president, General Insurance Division, retains his current position, and assumes additional responsibility as chief underwriter for both the Automobile and General Insurance Divisions.

- John K. Shields, personnel manager, Bob Lynch, manager of planning, and Grahame D. Newton, manager of Community and Corporate Services, will report directly to the chief operating officer. This will strengthen the role these positions play in the operations of the corporation.

- more -

- Henry P. Dribnenky, vice president of Financial and Administrative Services, will retain responsibility for Treasury and, with those listed above, will continue to participate as a member of MPIC's management committee.

The minister said both senior vice presidents will report directly to Graham F. Lane, interim chief operating officer.

"I am confident this reorganization will result in even greater operational efficiency within MPIC," Uruski said. "Although the total number of executive positions remains unchanged, the new structure makes more effective use of the skills and experience of key management personnel."

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EXHIBIT 6

AUTOPAC REVIEW COMMISSION

Comparison of ICBC and MPIC

Automobile Insurance Publications

ICBC Publications	MPIC Counterpart
Limited Depreciation	None
Making a Claim	Dial-a-claim Brochure
Hit and Run Accidents	None
The Claims Review Procedure	None
The Claims-Rated Scale	N/A
No-Fault Accident Benefits	None
Total Loss	None
Bodily Injury Claims	None
Autoplan's Rehab Program	None
Basic Compulsory Auto Inc.	None
Optional Autoplan Coverage	None
Motorists Moving to/from B.C.	None
Special Old Car Insurance	None
Insurance and the Young Driver	None
Autoplan Coverage for MV Equip.	None
Declared Value Coverage	None
Autoplan's Rental Liability Policy	None
Autoplan's Oversea's Tourist Pol.	None
Choosing a Body Shop	None
Young Driver's Insurance	None
Autoplan Motorist Kit (Same as Autopac 1988 Insurance Guide)	Autopac 1988 Insurance Guide

AUTOPAC REVIEW COMMISSION

POSITION PAPER NO. 11

THE NEED TO ENHANCE CORPORATE PLANNING

Submitted to: Honourable Glen Cummings

Submitted by: Judge Robert Kopstein

AUTOPAC REVIEW COMMISSION

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I. INTRODUCTION

The Autopac Review Commission examined needs for The Manitoba Public Insurance Corporation to make plans for the development and supply of its automobile insurance. The commission also assessed the corporation's current planning capabilities. The Coopers & Lybrand Consulting Group provided corporate planning advice to the commission.

II. WHY MPIC SHOULD PLAN FOR AUTOPAC

The commission found much public concern about the corporation's ability to set rates. Many Manitobans believe that the corporation failed to anticipate rising costs and was forced to raise rates sharply long after its loss experience had begun to deteriorate. The commission's analysis supports this view. In addition to rates, the corporation was too slow to act in amending coverages to reflect changes in the cost of claims and other factors. This has contributed to both infrequent and extreme adjustments as the corporation sought to catch up with changing circumstances. This syndrome appears, at least in part, to have been caused by insufficient or inadequate planning.

The corporation is an important member of Manitoba's economic community. It provides services to the majority of Manitobans who happen to be drivers. It employs more than 1,000 staff. Finally, its operations have a major effect on automotive repair businesses throughout the province. Based upon a survey of Manitoba business, the Manitoba Bureau of Statistics estimates that more than 13,000 Manitobans are employed directly by automotive trade firms. Any significant change in the corporation's business practices can benefit or harm members of these three groups. Therefore, it is very important that the corporation's actions be guided by thoughtful assessment and defensible objectives. In most larger business organizations, this sense of purpose is generated by corporate planning.

Corporate planning is one of many functions that a modern enterprise must perform, especially if it is as large and as economically important as The Manitoba Public Insurance Corporation.

The commission's consultant advised that corporate planning should be viewed as a perpetual activity encompassing continuous or repeated:

- o Affirmation of the interests of owners and other stakeholders and the business goals that must be pursued to satisfy these.
- o Appraisal of the business environment including economic, regulatory, demographic and other trends.
- o Determination of needs to add, enhance or otherwise change services or products in response to market conditions and other factors.
- o Evaluation of the financial feasibility of changing the business in response to external factors or new product opportunities.
- o Assessment of the organizational impact of change including possible requirements for staff, capital or other resources.

Thus, planning is a dynamic process. Since specific plans are static views, it is important that they be continuously or periodically revised. While much about Autopac appears relatively stable, there are many aspects of the business that do change. Some examples are: year-to-year loss experience, driving patterns, vehicle populations and consumer expectations. Due to these and other influences, the corporation requires the means to reassess its direction and set new courses. The commission's corporate planning consultant advised that some planning questions, such as the corporation's mission, may need to be re-examined every year while others, staffing plans for example, may need to be reviewed more often.

The commission's consultant informed me that corporate planning needs to be supported fully and actively by the chief executive officer and other senior managers. Their ongoing contribution is required to ensure that plans are revised as business circumstances change. Moreover, management must assume responsibility for imparting to staff, at all levels, a vision of the business that is derived from, and consistent with, the corporate strategy.

The preceding is a description of planning for Autopac as the commission's consultant believes it should be. I concur with this view.

III. THE CORPORATION'S PLANNING IS IN TRANSITION

The corporation has been engaged in planning. However, the commission's consultant reported the MPIC's planning, during most of its history, appears to have been inconsistent in its approach and uncoordinated with the planning activities just described. Exhibit 1 is a diagram of a common strategic planning model. With slight variations, I am advised, this model corresponds with the approach used by many public and private sector organizations. The components shown are logically related. In other words, resource plans are developed to support product plans that are derived from strategic business unit plans, and so on. This dependency is important because it helps ensure that day-to-day activities can be justified in the terms of the highest expectations of the owners of an organization and other stakeholders such as customers, employees and suppliers.

It was difficult to evaluate the corporation's planning because there was no evidence that the organization had prepared plans at the business unit and product levels. Thus, it was not possible to establish how the corporation's operating plans were derived from strategic plans prepared in 1985.

When the commission carried out its review in the spring of 1988, the corporation was undergoing major changes. Due, in part, I am informed, to the difficulties surrounding the introduction of the rates for the insurance year beginning March 1, 1988, the corporation had initiated major organizational changes. A new acting chief operating officer was appointed. On March 7, the minister responsible announced a reorganization. Two vice presidents were promoted to senior vice presidents. The responsibilities of many other executives were redistributed. The following month, the current government was elected. As this report is being prepared, it appears that measures will be introduced that will make the corporation more independent. Formerly, the minister responsible for the corporation chaired the board. The new chairperson, Harold Thompson, is a former senior insurance executive. He has stated publicly that the board will form its own opinion about needed changes.

For many years, the corporation's planning was confined mostly to annual rate adjustments and to individual research projects dealing with particular issues such as the premium time payment plan, parts recycling and vehicle repair labour races. Between the fall of 1987 and the spring of 1988, the corporation had limited planning opportunity. The Public Investments Corporation of Manitoba, under the direction of a board of cabinet ministers, was set up in August 1987 and granted considerable authority to review and amend the plans of MPIC. For example, The Public Investments Corporation of Manitoba was prominent in discussions between the government and MPIC about Autopac rates for the 1988 insurance year.

While a strategic plan had been prepared in 1985, the commission's consultant found no evidence that it had been revised since then. In fact, the version provided to the commission contained forecasts that, in light of later experience, were wrong. While any estimate is susceptible to error, projections that remain unrevised in the light of experience are of little value to planning. Using unrevised projections will lead, inevitably, to inappropriate decisions. For example, the plan contained a forecast of breakeven financial results following projected increases in rates of less than five percent in the fiscal years ending in 1986, 1987 and 1988. Had the corporation been committed to keeping its strategic plan current, it would have been able to adjust its rates in a more timely way.

IV. MPIC HAS BEGUN TO DEVELOP A STRATEGIC PLANNING SYSTEM

In December 1987, the corporation's board of directors considered needs for strategic planning. As the first step it endorsed a statement of corporate mission and objectives. Due to the organizational changes in February and March of 1988, there was little development of strategic planning until the spring of 1988. The acting chief operating officer held a series of meetings with members of his new senior management group to develop a corporate planning system. On June 1, the commission's staff also met with him and the senior managers responsible for corporate planning. The purpose of this meeting was to determine the progress that had been made by the management group and further to assess the potential of the proposed planning process. My staff and I also met with members of the corporation's management committee on July 7, 8, 12 and 15 to discuss specific initiatives that were being planned.

The commission was also provided with copies of several documents in which the proposed planning method was described. The commission examined four significant documents:

- An overview of the proposed strategic planning process.

- Statements of proposed corporate mission, objectives and critical success factors; these were attached to a memorandum sent by the senior manager, planning and corporate information systems, to the senior managers who participated in a planning session on April 8.

- Descriptions of strategic initiatives planned for 1988; the following were attached to a memorandum sent by the senior manager, planning and corporate information systems on May 31 to members of the Management Committee:

  - Criteria for Establishing Priority on Major Initiatives

  - An Executive Summary of The MPIC 1988 Major Strategic Initiatives

  - MPIC 1988 Major Strategic Initiatives - Revision 3.0

- A letter sent on June 10, 1988 to the commission, by the acting chief operating officer, concerning many changes either planned or under consideration by the corporation.

The commission has drawn extensively upon these documents in providing the following descriptions of the corporation's planning intentions. Based upon my assessment of the corporation's planning statements and the results of my discussions with the corporation's senior managers, I believe the corporation has taken the first steps to building an appropriate strategic planning capability. The following is a description of the corporation's proposals.

A. THE PROPOSED CORPORATE MISSION

The management group has developed a statement of what the corporation's mission should be. The goals that apply to Autopac are as follows:

"A.1 To provide all Manitobans with low cost high quality automobile insurance on a stable, efficient and equitable basis, consistent with long-term financial self-sufficiency.

> "A.2 (This goal pertains to general insurance and therefore is outside the scope of the commission.)
>
> "A.3 Notwithstanding the above, to provide a significant source of capital to public institutions in Manitoba from the reserves and surplus earnings of Autopac."

Clearly, while the government has both the prerogative and the responsibility to prescribe the corporation's responsibilities to the extent provided in legislation, the corporate mission statement is not the appropriate instrument for this form of direction. The mission statement should be the corporation's own interpretation of its responsibilities. I believe that the government should provide the board with a separate statement of the purpose it wishes the corporation to serve. In Position Paper No. 1, Towards Greater Accountability for Autopac, specific recommendations are made about how this type of direction should be provided. Nevertheless, the board, at its discretion, may wish to consult with the government and other stakeholders to ensure that its mission statement encompasses their expectations.

B. THE PROPOSED STRATEGIC PLANNING PROCESS

Exhibit 2 is a chart of the planning process that the corporation's management committee has recommended. The proposal encompasses the development of a comprehensive strategic plan and supporting operating plans. As proposed, the corporation would first decide upon and then confirm the purpose of a number of business units. Automobile insurance alone, as distinguished from general insurance, re-insurance and other unrelated corporate activities, should be made the responsibility of one strategic business unit. As proposed by the corporation, the roles of this and other strategic business units would be decided in September and October of 1988 and would be described in a revised statement of the corporation's mission and objectives as well as its business unit strategies. The corporation's board of directors would examine the statement and offer guidance to the corporation's senior management.

As proposed, the corporation would then work from November 1988 to April 1989 to prepare a consolidated strategic plan for the corporation. The initiatives defined in October would be spelled out in more detail. The result would be a planning document that would go forward in the spring of 1989 for approval by the corporation's board of directors.

The final major phase would take place after the strategic plan has been approved by the board of directors. Senior management would prepare operating plans for each business unit. These would include estimates of production volumes and other performance targets, staffing plans and budgets. The management group has recommended that the new planning process be used to develop operating plans and budgets for the fiscal year beginning in October 1989.

The planning process would be repeated each year. However, the amount of work required would be less than in the first year since many aspects of the previous plan would apply to subsequent plans. I am advised, for example, that the corporate mission and even the strategic business unit mandates would change relatively little from one year to the next. Therefore, while the corporation expects that this work will take three months at first, it may be possible to complete it more quickly in subsequent years. However, other parts of the planning cycle, such as the preparation of annual budgets and staffing plans, are likely to take almost as much time in later years as at the start.

Ratemaking adds another major factor. While I recommend, in Position Paper No. 1, that it be subject to Public Utilities Board scrutiny, ratemaking is a major, direct responsibility of the board of MPIC. For most organizations, pricing is one element of product planning. I am informed that, once strategic business unit plans have been prepared, individual product plans are developed that then become the foundation for annual operational plans. For businesses that supply competitive markets, changes in prices can have significant effects on sales volumes. Forecasts of production and distribution must reflect the demand that will be realized at planned price levels. However, since MPIC is mostly a monopoly supplier, demand for automobile insurance is relatively insensitive to price. Only extreme changes in premiums are likely to alter demand for basic Autopac coverage.

Due to the relationship of rates to operating results, I believe that proposals for changes in premiums or in coverage should be made part of formal product plans. Although the corporation has not prepared these in the past, I believe it would be helpful for the organization if it conducted annual assessments of the market for Autopac and opportunities to improve the design, packaging and distribution of its automobile insurance products. If the corporation were to do this, the results of this analysis could be confirmed before operational plans are made. The essence of the corporation's rate proposals would be the sections of the automobile insurance product plans that pertain to pricing matters.

Recommendation 11.01: That the corporation adopt formal and regular product planning as the broad context for ratemaking and, further, that Autopac product planning incorporate:

- Assessments of changing market conditions including emerging or diminishing demands by policyholders for automobile insurance.

- Evaluation of prevailing types and limits of Autopac coverage in terms of market demand and market trends.

- Review of the adequacy of the packaging, or bundling, of various types and levels of coverage within basic and extension Autopac.

- Evaluation of the current marketing and distribution of Autopac and opportunities to make improvements.

- Confirmation or revision of guidelines for setting prices within individual rate groups in accordance with predetermined and long-term financial objectives.

- Development and refinement of proposals to maintain or modify current rates.

The corporation's management committee wishes to maintain a five year strategic plan as well as operating plans for the current fiscal year. To help manage the preparation of appropriate plans, the management group has developed a list of eight planning responsibilities and has reached agreement on which corporate executives will be assigned to each of these tasks.

C. RESOURCES FOR PLANNING

Successful corporate planning depends on both a systematic process and sufficient organizational capacities. Consequently, the commission examined the resources the organization had committed to corporate planning.

1. Organization of the Planning Function

Shortly after the Autopac Review commission was established, the corporation's former business studies department was disbanded. The corporation made the following changes:

- o It transferred many responsibilities for planning to the newly created insurance operations division and the corporate services division.
- o Arrangements were made for individual planning initiatives to be directed by task forces comprised of managers representing all parts of the corporation that could be affected significantly by the proposals being examined.
- o A small planning support group was set-up in a new planning and corporate information systems sivision.

While the commission's review was underway, the corporation began to set up a corporate planning department. Exhibit 3 is a chart of the planned organization. A manager, with private industry experience in corporate planning, has been appointed and steps are being taken to hire the first of three planning analysts. I understand that these staff members will not be responsible directly for planning in individual strategic business units but rather will act as resources to managers throughout the corporation. Thus, it is intended that plans be prepared mostly by line staff who will be supported by both planning staff from the planning and corporate information systems division and by consultants.

2. Planning Methods and Tools

Productive work methods are just as important for planning as for other activities. Over time, modern enterprises typically develop a fairly consistent set of tools for assessing changes in the insurance industry, markets, technology and other planning variables. It is important that reasonably consistent techniques be used so that the organization can develop an historical perspective. Specifically, the corporation requires the means to make year-to-year comparisons.

The corporation recognized the need to develop forecasting techniques when, in 1987, it retained The University of Manitoba Research Ltd. to conduct a study of the potential to use socio-economic variables to predict changes in expenses and revenues. In its report Forecasting Autopac Claims - Feasibility Study, dated March 19, 1987, the consultants recommended the use of a statistical method, the Box-Jenkins approach, a forecasting technique endorsed by members of the Civil Service College in the United Kingdom. While there is evidence that the method can be useful, it is a departure from accepted econometric practice. Its application requires some relaxing of statistical rules that traditionally have been used in the analysis of changes over time in quantitative variables.

Subsequently, the corporation developed its own statistical model for forecasting claims costs. The commission examined a description of the Autopac claims forecasting model in a corporate document entitled Claims and Incurred Forecasting Model - Version 1. The corporation's model differed from the one proposed by The University of Manitoba Research Ltd. in that its model is based somewhat more upon claims information than on socio-economic data. I am advised that the forecasting tool represents a significant improvement in the corporation's ability to predict changes in claims experience.

To produce statistical estimates of the frequency and value of claims, a statistical analysis is undertaken of past claims, vehicle populations, driving offenses, changes in consumer prices and other variables. The corporation has applied the model to generate forecasts of claims beginning with the 1974 insurance year. The variation between the estimated values and actual ones is small and, appropriately, appears random.

The remainder of this section is technical in nature and is directed primarily towards actuaries or econometricians who hopefully will be employed by MPIC. I was informed that the corporation is using a statistical method known as "multiple regression" that permits a researcher to assess how changes in one variable are associated with changes in others. For example, one might wish to examine whether the length of hospital stays is correlated, with patient age, the patient's number of past hospitalizations and the bed capacity of the institution in which the patient is placed. By using multiple regression, the researcher could determine whether there is statistical evidence that these factors contribute to longer or shorter stays in hospital. In doing this, the statistician must be careful to ensure that the right variables are being considered and moreover, that there is a plausible causal explanation for the purely mathematical association that is revealed by the statistical method.

The forecasting model is a major improvement. However, there are limitations, which must be taken into account as MPIC moves into necessarily more complex types of analyses.

First, it incorporates time series, or serial, data. This is information about each of a series of time periods. The commission's consultant advised that there are severe statistical difficulties associated with this type of analysis. To begin with, the variables used to predict changes over time in claims costs and frequencies may simply reflect trends that correspond only incidently to claims experience.

The second major difficulty, I am informed, is the aggregate nature of the forecasts. For example, claims may appear to be relatively stable if total numbers of claims and total amounts of loss are considered. This can be misleading if experience is not examined within each rating class. For example, bodily injury claims may go up in one territory and down in another. While the total may be similar from one year to another, important changes are taking place that could affect the amount of premium needed by the corporation to cover its costs.

To overcome this deficiency, I am advised that it is necessary for the corporation to examine losses by:

- Producing, in the aggregate, statistically-based forecasts such as those provided by the model.
- Conducting a discrete analysis of claims experience in each rating class, that is, by considering losses disaggregated by individual class.

By taking these two methods together, I believe the corporation could more accurately interpret changes in its business and make the appropriate adjustments. Each approach has unique strengths and limitations. By using both, the corporation can reduce the risk of making decisions based upon inevitable methodological bias, such as the inevitable tendency of particular forecasting techniques to produce projections that are either too extreme or cautious.

Recommendation No. 11.02: That priority be assigned to analysis of loss experience in individual rating classes to supplement the current practice.

As noted elsewhere in this report, the corporation recently has taken important steps to strengthen its planning. Those measures are justified; moreover, planning must continue as a priority.

D. STRATEGIC INITIATIVES PLANNED BY THE CORPORATION FOR 1988

If the corporation is successful in implementing the strategic planning system it has proposed, the final results will not be produced until Spring of 1989. In light of that fact, the corporation's management committee has decided to commence upon a number of internal projects that have been identified as strategic initiatives. Most are intended to rectify known difficulties. Thus, they are a reaction to past criticisms rather than commitments to future goals. Nevertheless, many are very significant given the commission's terms of reference. The main initiatives planned by the corporation are the following.

1. Improved Ratemaking for 1989

The corporation's management has assigned priority to a review of its rate classifications and to the development of rates that reflect loss experience. It hopes to develop rate proposals for the 1989 insurance year that incorporate these enhancements. The management group has expressed a wish to consider improvements in coverage such as universal insurance for losses caused by underinsured motorists. At the same time, the corporation hopes to strengthen its fleet insurance products and provide enhanced special risk extension coverage.

2. Enhanced Communications with the Public

The corporation is considering methods to prevent losses by reducing both the number and cost of claims. These include the examination of methods to improve safety programs and create greater awareness by both members of the public and employees about the corporation.

3. Assessment of More Convenient Claims Services

Currently, claimants must make appointments at a specific claims centre. The corporation wishes to assess the potential benefits of a central appointment scheduling facility. Similar to the current Dial-a-Claim service, the system would permit appointments to be made at any claims centre by calling a single telephone number in Winnipeg, or possibly, a 1-800 or Zenith number outside the city. A central appointment scheduling service could offer the following benefits:

- Greater convenience for claimants in making timely appointments.

- More opportunity for the corporation to distribute claims workloads more evenly, by referring claimants to centres that are less busy.

- Improved operating efficiency.

If a centralized Dial-a-Claim service were implemented, the corporation would have to change both its claims organization and its information systems. The corporation plans to complete a study of the benefits and costs so that a decision can be taken on the proposal.

4. Evaluation of the Feasibility of an Experimental Repair Facility

The corporation's management group believes that it may be beneficial to create a research facility for the study of vehicle repair work. Specifically, the corporation would like to be able to evaluate alternative work methods, assess the standard labour times required for certain repairs and evaluate the effect upon work requirements of new materials or vehicle designs. Saskatchewan Government Insurance already has such a facility.

The management group is planning to undertake a feasibility study. This will be an assessment of the benefits and costs of setting up and operating an experimental repair shop. The corporation would then decide whether or not to proceed depending upon how expected benefits compared to projected costs.

5. Enhancement of the Corporation's Information Systems

Another strategic initiative is the upgrading of the following information systems:

- The administrative and computer systems used or needed for the merit/demerit program.
- The manual and automated information systems needed to support the financing of Autopac premiums.
- Development of a new computer-assisted information system to support the evaluation of total losses of vehicles.
- Additional development and implementation of the corporate strategic planning system just described.

These projects pertain directly to automobile insurance and not other parts of the corporation's business.

6. Accreditation of Automotive Repair Establishments

Senior claim staff have been negotiating with representatives of the automotive trades a plan to accredit repair establishments. The commission is informed there is general agreement between the corporation and the automotive trades that accreditation would be an improvement. The corporation's management committee has assigned priority to this strategic initiative.

The six preceding initiatives have been identified by the corporation's management committee as being the most important for 1988. This committee has identified other projects to which it is assigning lower priority. Of those that pertain to automobile insurance, the commission considers the following management proposals to be most significant:

- Development and implementation of new premium financing services and renewal policies throughout the year.
- Development of improved and more efficient Autopac claims processing.
- Development of a plan for developing on-line computer systems to link Autopac agents to the corporation.
- Evaluation of alternative methods for remunerating Autopac agents to provide fairer compensation for the services they perform.
- Development of new safety programs.
- Assessment of the feasibility of expanded vehicle inspections.
- Refinement of the corporation's Autopac claims forecasting methods.
- Development of a computer-assisted vehicle inventory system.
- Detailed study of the potential to expand no-fault coverage under Autopac.

In addition to these, the corporation has identified other opportunities to improve the internal administration of the corporation. These initiatives include enhancement of financial systems, automation of routine office work, strengthened management of the corporation's investment portfolio and improved staff development. While it is difficult to tie the benefits of these directly to Autopac, they are intended to produce general improvements throughout the organization. Thus, they could contribute to greater efficiency.

To help assess the the corporation's corporate planning, the commission examined how this function is performed by the Insurance corporation of British Columbia.

V. HOW THE INSURANCE CORPORATION OF BRITISH COLUMBIA PLANS

A member of the commission staff visited the Insurance Corporation of British Columbia (ICBC) and reported that it has a well developed corporate planning system. Reflecting this greater maturity, the Insurance Corporation of British Columbia has a corporate mission that is supported by several other important statements. The substance of these is as follows:

- The ICBC philosophy is tied to key values such as commitment to a long-term role, self-sufficiency, high levels of service, public acceptance, loss prevention, innovation, minimal cross-subsidization of rates, self-evaluation, progressive human resource management and responsiveness to the objectives of key suppliers such as agents, independent adjusters and lawyers.

- Operating guidelines for the ICBC cover the quality of service, business ethics, management values and desired contributions to the interests of various stakeholders including staff, suppliers and government.

- ICBC's business is described in terms of the corporation's business milieu, that is, its social, political, market, economic and technological attributes.

o The following strategic priorities are presented:

  - Control of bodily injury costs
  - Strengthening role of agents as a channel for communication between the corporation and its public
  - Refinement of claims services
  - Simplification of business methods
  - Participation in community activities
  - Acceleration of programs to promote traffic safety
  - Decentralization of authority within the corporation
  - Control of administrative expenses
  - More effective use of information technology

In making these strategic statements, ICBC conveys an image of the type of organization it wishes to be. This contributes to a greater sense of purpose and consistency of action.

ICBC excludes rate changes from its strategic planning. It views the need to alter premiums as a relatively short-term activity, specifically done in response to varying loss experience. The corporation develops rate proposals only for the next insurance year. The results of this work are, however, shown in the corporation's operating plans including its budget. Previously, I described one method that would permit MPIC to combine ratemaking and corporate planning. Specifically, I proposed that MPIC prepare automobile product plans that incorporate insurance pricing forecasts. I believe this proposal would create a stronger linkage between ratemaking and corporate planning than exists now either at ICBC or MPIC.

I am informed that, compared to its counterpart in British Columbia, MPIC has two major disadvantages. First, as mentioned, it has just begun to develop a strategic planning capability. Second, The corporation has before it a greater and more complex organizational development challenge. ICBC has already put in place many of the business capabilities, such as experience-based ratemaking, that I believe are required by MPIC.

The main conclusion I draw from ICBC's experience is that a government-held insurance organization can make highly beneficial use of the planning methods used by privately-owned corporations. While MPIC has adopted some specific planning techniques applied in the private sector, I do not believe it has been successful in bringing its efforts to a productive result. The main evidence of this is the fact that the strategic plan proposed in 1985 languished in later years. I was informed of no effort to revise the plan to reflect subsequent changes in the corporation's business.

Recommendation 11.03: That the corporation examine carefully how the Insurance Corporation of British Columbia develops and maintains corporate plans and, further, that MPIC consider how it might adopt the approach and methods employed by ICBC, either in their current form or modified for MPIC's specific needs.

VI. HOW TRAFFIC ACCIDENT RESEARCH CAN IMPROVE PLANNING

The Manitoba Public Insurance Corporation gathers much information on claims. This can be used to identify the types of claims being incurred, their frequencies and costs. In turn, these values can be divided by class of policyholder. This is most helpful for calculating the amount of premium that should be charged for policyholders in different rating circumstances.

Claims information also has another limited but important use. By promoting driver, vehicle and road safety, the corporation can reduce claims and costs. From its claims experience, the corporation can determine types of claims that may be reduced through accelerated safety programs. However, claims data are only part of the information required. I am advised that an insurer must first understand what causes the incidents that give rise to claims. For this, one must also evaluate other types of information including:

- Statistics on accidents, vehicles, drivers and provincial road conditions gathered by the division of driver and vehicle licencing of the Manitoba department of highways.

- Statistics on accidents and driving offenses collected by police departments throughout Manitoba including the Royal Canadian Mounted Police, "D" Division.

- Data on charges and convictions made under The Highway Traffic Act, now kept by the Manitoba Attorney General's Department.

- Findings of numerous governmental and non-governmental traffic accident research organizations.

The commission examined statistical reports published by both the division of driver and vehicle licencing and the City of Winnipeg police department. It is clear to the commission that there is a wealth of information on traffic accidents in Manitoba that could be used more productively by the corporation and other organizations to reduce death, injury and vehicle damage. Currently the corporation maintains a direct relationship with the division of driver and vehicle licencing, police forces or the road safety unit at the University of Manitoba. Higher priority should be assigned to:

- Developing a central clearinghouse for information on road accidents, driving offenses and automobile insurance claims.

- Financing scientific analyses of these data and publication of the results.

- Implementing enhanced public information programs to promote greater understanding by Manitobans of opportunities to use the road more safely.

While the primary reason to support improved accident research is to reduce accidents, the results would also help the corporation to assess how it might improve its rating classification system. For example, the National Highway Traffic Institute in the United States has conducted scientific studies of losses associated with different makes and models of vehicles. I am informed that independent technical research could help the corporation determine the extent to which differences in losses can be attributed to vehicle characteristics, a factor which is not now considered. In turn, the Autopac rating system could be refined to reflect such findings. Therefore, I propose that the corporation support independent accident research for this purpose as well as for its value as a tool for designing more effective loss prevention programs. Other organizations, such as the division of driver and vehicle licencing, may also have good reasons to contribute to a common accident research and analysis program.

Recommendation No. 11.04: That an independent organization, either within government or outside, be assigned responsibility for consolidating information on road and vehicle hazards and making at least annual reports to the public of significant findings. So that this accident research would be highly credible, it should be conducted by an organization with no direct responsibility for regulating vehicle operation, enforcing traffic laws or insuring drivers and vehicle owners. The road safety unit at the University of Manitoba may be in the best position to assume this role.

VII. A PLAN FOR PLANNING

The issue of corporate planning posed a dilemma for the commission. On one hand, as I have acknowledged, the corporation's management group has taken a number of important steps to improve planning within the corporation. Despite these, I believe that the corporation may be taking too static and narrow a view of its needs. The plans the corporation is developing do not reflect the amount of change that the commission believes is needed.

The commission's consultant reported that MPIC lacks a "plan for planning". This is a plan that covers all the major steps and organizational arrangements needed to prepare the full continuum of plans -- from a mission statement down to budgets, staffing and other operating plans. While the previously described strategic planning process, endorsed by senior management in the spring of 1988, is an important start, the commission's consultant said that it is only part of what is required. It is a general plan rather than one that reflects MPIC's particular priorities, at least as viewed by the commission.

I believe the corporation needs to pursue a step-by-step course of action, with the first priority being the redesign of the rating classification system used for Autopac. Many of the corporation's difficulties appear to be due to inadequate ratemaking. The relevance of the rate classes cannot be overestimated. They determine the very view of risk to which the corporation must respond commercially by prescribing types and levels of coverage and, from its experience with losses, appropriate premiums. The redesign of the ratemaking system touches on many management issues. These include needs for information, insurance operations, insurance pricing, performance measurement and financial control. Therefore, I believe the corporation should plan its development in a logical way that will ensure that subsequent effort is productive.

Recommendation No. 11.05: That the corporation take the following steps in the order in which they are presented:

o Review by the board of directors of the statement of corporate mission and objectives prepared by the management committee.

- Review and endorsation by the board of directors of a strategic planning process such as the one proposed by the management committee.

- Clarification of the corporation's responsibilities for lines of insurance other than automobile insurance and assessment of the organizational implications of any changes in corporate purpose.

- Development of a strategic plan to be completed in the spring of 1989, with board approval.

- Reordering of the strategic initiatives identified by management as follows:

  - Using the existing rate classifications, determination of the rates that would be required to offset the corporation's expected losses.

  - Development of insurance pricing guidelines for adjusting premiums to reflect, to a greater extent, the corporation's insurance costs.

  - Preparation of a rate proposal for the 1989 insurance year.

- Development of rating systems which encourage motorists to conduct themselves in a manner or use equipment which is likely to eliminate or reduce losses arising from automobile accidents, based upon in-depth studies of the causes of accidents in Manitoba.

- Design of a new system for classifying insurance risks for ratemaking and other management purposes, based partly on the results of the preceding study.

- Completion of a comprehensive study of organizational requirements to support the planning, development and supply of automobile insurance products.

- Preparation of a strategic information resources management plan covering business systems and associated technological needs.

In effect, these proposals represent a rebuilding of the corporation. The essence of the insurance business is, over time, a satisfactory matching of revenues and expenses. The rate classification and premium-setting functions are the most fundamental.

Recommendation No. 11.06: That the corporation concentrate on the undertakings proposed in Recommendation 11.05 before commencing on the more detailed projects that are part of the initiatives proposed by the management committee for 1988.

VIII. SUMMARY OF MAIN CONCLUSIONS

The commission concludes as follows:

- The corporation is currently operating without an approved strategic plan.

- The strategic plan prepared by the corporation in 1985 was not updated and has not served as the intended foundation of the corporation's operating plans in subsequent years.

- The corporation has developed an internal proposal to introduce corporate planning including the development of a comprehensive strategic plan.

- The proposals of the MPIC management committee conform to contemporary corporate planning practice, and if implemented, should produce appropriate long-term and annual plans.

- The corporation has recognized the potential benefit of formal planning techniques, such as its claims forecasting model, and appears committed to developing additional planning tools.

- To achieve satisfactory results, much continued senior management support and internal work is needed to create, for the first time, working examples of required planning reports.

- The experience of the Insurance Corporation of British Columbia (ICBC) is evidence that government-held insurance organizations can adopt, and benefit from, the strategic planning practices employed by privately-owned corporations.

- The corporation needs to subject its losses to more detailed analysis, in terms of its loss experience, individual rating groups, territories and specific use codes.

- There is a significant opportunity to carry out research on the causes of accidents, and thus insured losses, in Manitoba and, in turn, assess the potential benefits of enhancing or redesigning traffic safety programs.

IX. RECOMMENDATIONS

The commission's recommendations are as follows:

Recommendation 11.01: That the corporation adopt formal and regular product planning as the broad context for ratemaking and, further, that Autopac product planning incorporate:

- Assessments of changing market conditions including emerging or diminishing demands by policyholders for automobile insurance.

- Evaluation of prevailing types and limits of Autopac coverage in terms of market demand and market trends.

- Review of the adequacy of the packaging or handling of various types and levels of coverage within basic and extension Autopac.

- Evaluation of the current marketing and distribution of Autopac and opportunities to make improvements.

- Confirmation or revision of guidelines for setting prices within individual rate groups in accordance with predetermined and long-term financial objectives.

- Development and refinement of proposals to maintain or modify current rates. (Page 9)

Recommendation No. 11.02: That priority be assigned to analysis of loss experience in individual rating classes to supplement the current practice. (Page 15)

Recommendation 11.03: That the corporation examine carefully how ICBC develops and maintains corporate plans and further, that MPIC consider how it might adopt the approach and methods employed by ICBC, either in their current form or modified for MPIC's specific needs. (Page 22)

Recommendation No. 11.04: That an independent organization, either within government or outside, be assigned responsibility for consolidating information on road and vehicle hazards and making at least annual reports to the public of significant findings. So that this accident research authority would be highly credible, it should be conducted by an organization with no direct responsibility for regulating vehicle operation, enforcing traffic laws or insuring drivers and vehicle owners. The Road Safety Unit at the University of Manitoba may be in the best position to assume this role. (Page 24)

Recommendation No. 11.05: That the corporation take the following steps in the order in which they are presented:

- Board of directors review of the statement of corporate mission and objectives prepared by the management committee.

- Board of directors review and endorsation of a strategic planning process such as the one proposed by the management committee.

- Clarification of the corporation's responsibilities for lines of insurance other than automobile insurance and assessment of the organizational implications of any changes in corporate purpose.

- Development of a strategic plan to be completed in the spring of 1989, with board approval.

- Reordering of the strategic initiatives identified by management as follows:

    - Using the existing rate classifications, determination of the rates that would be required to offset the corporation's expected losses.

    - Development of insurance pricing guidelines for adjusting premiums to reflect, to a greater extent, the corporation's insurance costs.

    - Preparation of a rate proposal for the 1989 insurance year.

- Development of rating systems which encourage motorists to conduct themselves in a manner or use equipment which is likely to eliminate or reduce losses arising from automobile accidents, based upon in-depth studies of the causes of accidents in Manitoba.

- Design of a new system for classifying insurance risks for ratemaking and other management purposes, based partly on the results of the preceding study.

- Completion of a comprehensive study of organizational requirements to support the planning, development and supply of automobile insurance products.

- Preparation of a strategic information resources management plan cover[illegible] usiness systems and associated technological needs. (Page 25)

Recommendation No. 11.06: That the corporation concentrate on the undertakings proposed in Recommendation 11.05 before commencing on the more detailed projects that are part of the initiatives proposed by the management committee for 1988. (Page 27)

EXHIBIT 1

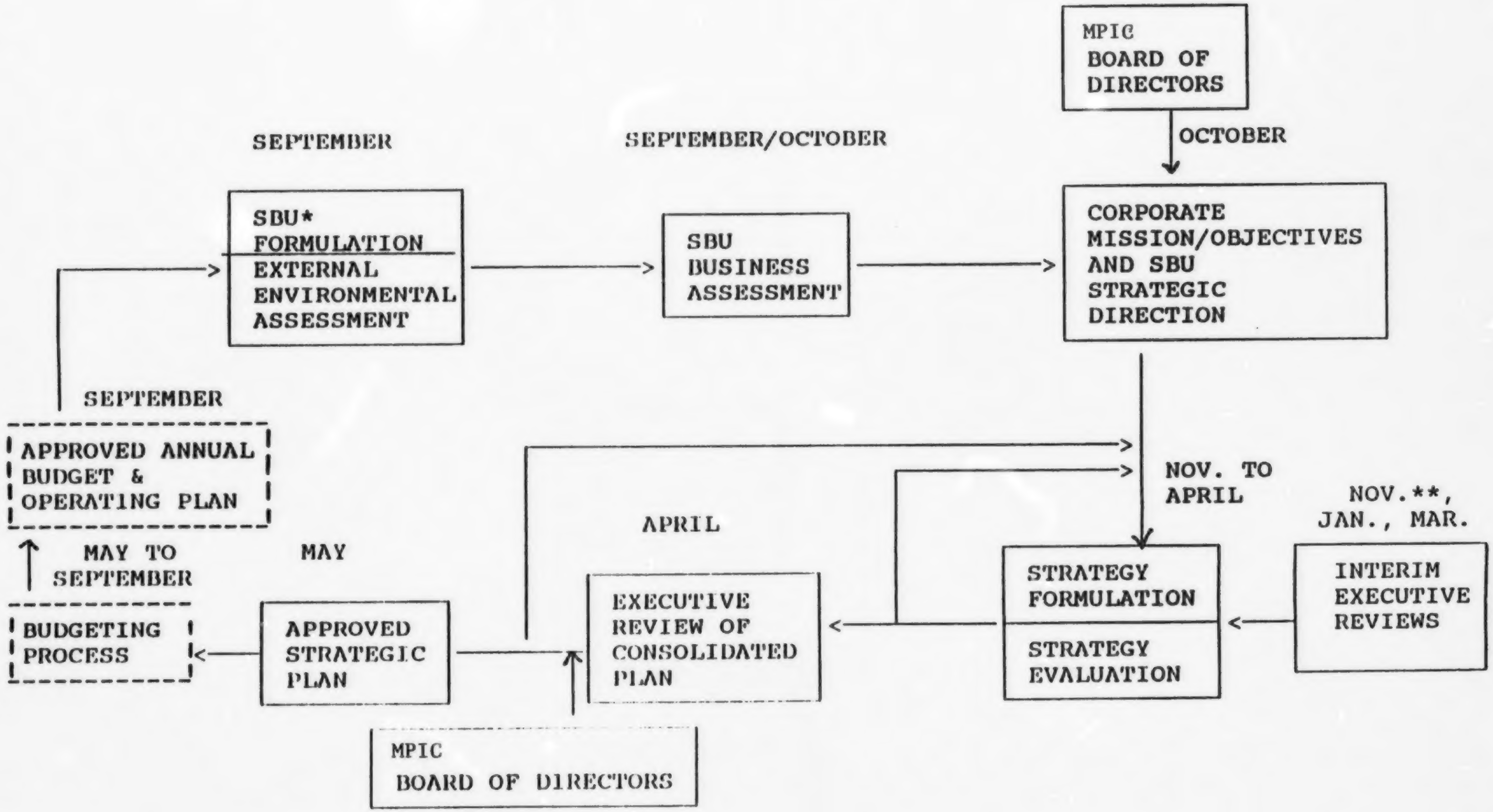
CORPORATE PLANNING MODEL

PLANNING PRODUCT	PURPOSE	INFORMATION NEEDED TO PRODUCE PLAN
CORPORATE MISSION AND OBJECTIVES	Confirms objectives of owners and the stakeholders	o Organizational purpose per legislation or charter o Expectations of key publics: - Customers - Employers - Suppliers
STRATEGIC BUSINESS UNIT MANDATE	Shows how major parts of the organization will serve stakeholders	o Statement of commercial scope of intended business o Outlook for major markets o Statement of how Strategic Business Unit will contribute to larger corporate goals o Annual targets for sales, quality and profitability
PRODUCT / MARKET PLANS	Define the commercial program in terms of sales objectives and desired financial contribution by specific product or service	o Disaggregation of product/service line o Market demand projections by segment o Statements of needs to improve: - Products or services - Efficiency or quality of supply - Distribution and sales o Annual targets for sales and profitability for each product/service o Development plans
RESOURCE PLANS: - BUDGET - STAFF - OTHER RESOURCES	Record annual commitments of staff, funds, materials, technology and other resources	o Organizational Plan o Assumptions re: production volumes o Policies re: make-or-buy o Operational performance goals

EXHIBIT 2

STRATEGIC PLANNING AT MPIC

STRATEGIC PLANNING PROCESS


MPIC
BOARD OF DIRECTORS
OCTOBER
SEPTEMBER
SEPTEMBER/OCTOBER
SBU*
FORMULATION
EXTERNAL ENVIRONMENTAL ASSESSMENT
SBU BUSINESS ASSESSMENT
CORPORATE MISSION/OBJECTIVES AND SBU STRATEGIC DIRECTION
SEPTEMBER
APPROVED ANNUAL BUDGET & OPERATING PLAN
NOV. TO APRIL
NOV.**, JAN., MAR.
APRIL
MAY TO SEPTEMBER
MAY
STRATEGY FORMULATION
STRATEGY EVALUATION
INTERIM EXECUTIVE REVIEWS
BUDGETING PROCESS
APPROVED STRATEGIC PLAN
EXECUTIVE REVIEW OF CONSOLIDATED PLAN
MPIC
BOARD OF DIRECTORS

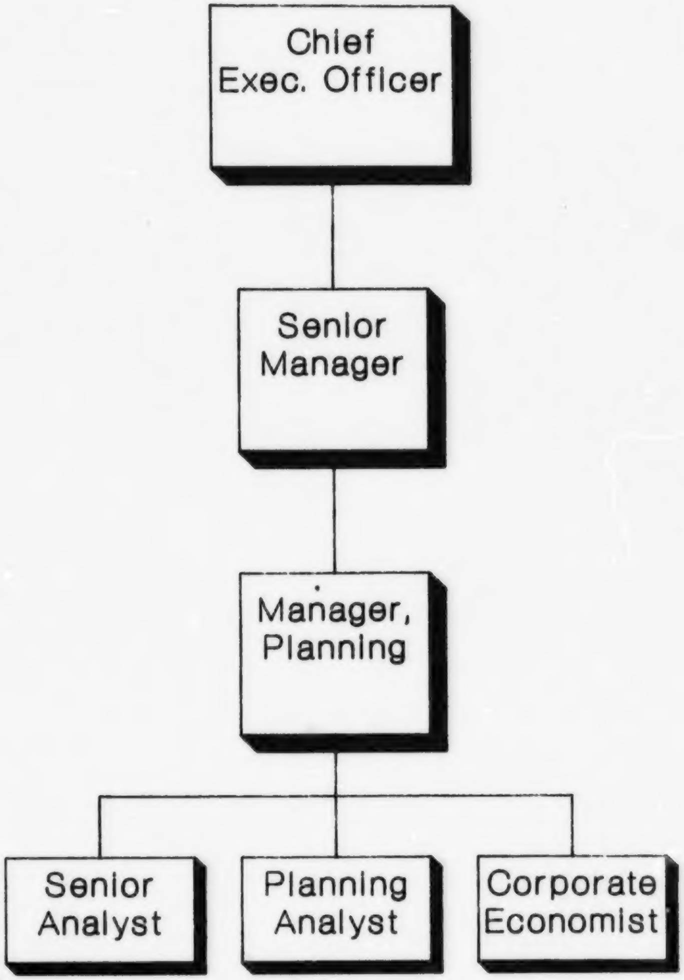
* SBU = STRATEGIC BUSINESS UNIT

**EXECUTIVE REVIEW OF ACTION PLANS

Source: The Manitoba Public Insurance Corporation

EXHIBIT 3

CORPORATE PLANNING ORGANIZATION


Chief Exec. Officer
Senior Manager
Manager, Planning
Senior Analyst
Planning Analyst
Corporate Economist

Source: MPIC July 1988